TASMANIA

GOVERNMENT
PRICES
OVERSIGHT
COMMISSION

Investigation of Metro Pricing Policies

Draft Report

April 2000

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Printed April 2000
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ISBN 0 7246 5001 6

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Foreword

This Draft Report of the 1999-2000 Investigation of the pricing policies of Metro Tasmania Pty Ltd includes the Commission’s proposals for maximum revenues which may be earned by Metro for the three years from 1 July 2000.

Metro earns about thirty percent of current revenues from fares, with the Government contributing some $18.3 million per annum under a contract for the provision of scheduled route and dedicated school services.

The Commission proposes to recommend ‘maximum prices’ as the maximum revenues which Metro may earn from fares and from payments under the Government contract. This assessment is based on an estimate of the total revenue which would be required by an efficient operator to provide Metro services on a commercial basis.

The Commission has also considered the appropriate levels of fares to be paid by Metro patrons, but does not propose to make recommendations on maximum fares. Rather, the Commission’s research and views are recorded to assist Government in this decision.

This Draft Report has been released to receive comments on the analysis and draft conclusions. The Commission now invites submissions and additional information which Metro, the Government and the community may wish it to take into account before completing its Final Report and recommendations.

Overview and Draft Recommendation

The Commission is required to recommend maximum prices for Metro's delivery of the current set of scheduled route services in Hobart Launceston and Burnie. The commercial environment in which Metro operates has changed significantly since the Commission's last investigation in 1996. Metro was established as a company under Corporations Law in 1997-98, with a greater distinction of its commercial role and removal of its statutory protection from competition for route services.

Metro's responsibilities to Government are now defined in a contract for services. This contract sets out the services that the Government requires Metro to provide, in return for payments to compensate Metro for the shortfall between fare-box revenues and the costs of providing the services.

Metro is facing two major issues. Decline of patronage has averaged 3 per cent per annum over the past 13 years. But from 1995-96 to 1998-99, adult patronage declined by 9 per cent per annum and child/student travel declined by more than 5 per cent per annum, while concession travel was relatively stable. Adult travel now represents about 20 per cent of Metro patronage, with children/students and concession travel making up 44 per cent and 36 per cent respectively.

The decline in use of public transport is common in many developed urban communities. It appears to be related to increasing use of private motor vehicles for work travel and growth in the proportion of two-car households. Loss of patronage is the critical issue confronting Metro as operator and Government, in both its roles as owner and as the purchaser of public transport services. While the trend away from the use of public transport is not unique to Metro, there is a real question of whether scheduled route services as currently provided are the most appropriate means of meeting changing public transport needs. Metro has introduced a number of initiatives to improve services, particularly in providing more convenient services for shoppers, and has commissioned a major study to address this issue.

The second issue is the potential for the loss of Metro's exclusive right to provide these services. Under the new transport legislation which is expected to be proclaimed in May 2000, Metro's route services may in the future be put to tender. The Commission has approached the task of assessing the maximum prices which Metro may charge by assessing the total costs including a commercial profit which could be expected if the provision of these services were open to competition. The tender model adopted by the Commission for assessment of maximum revenues is taken to be:

- the current integrated timetable of scheduled route services and dedicated school services;
- the use of existing Metro depots and other facilities; and
- the use of the existing Metro fleet.

In assessing ‘maximum prices’ for Metro services, the Commission has taken account of recent studies of comparative costs and efficiencies of public and private sector urban bus operators in Australia. This study shows that for a standardised service, Metro’s costs are 21 per cent less than the public sector average and the lowest of the public operators surveyed, but 19 per cent higher than the average private sector costs.

Metro has made substantial progress in lowering its unit costs over the past six years. Costs, excluding bus capital charges, have been reduced by 15 per cent, with the main reductions in driver costs and repairs and maintenance.

The Commission’s assessment of the appropriate allowance for providing the services is not a performance target for Metro while operating in the public sector with public sector awards and conditions of employment. Rather, it is the Commission’s estimate of the costs which could reasonably be expected if the services were put to an open tender. The Commission’s estimate of total allowable cost is approximately equal to Metro’s current total revenue (fares plus payments under the Government contract), but Metro does not currently provide a commercial return on the $27 million of capital employed in the business.

The Commission proposes to recommend a maximum revenue of $26.4 million per annum, including fare-box receipts and payment from Government. This amount is expressed in 1999-2000 terms and does not include the impact of the New Tax Package. The amount is to be adjusted to include the net impact of the GST and is then to be adjusted annually to take account of changes in the components of Metro’s costs (net of GST effects). It should also be adjusted if the Government requires Metro to modify the services currently provided.

There may be opportunities for cost reductions by improving utilisation of buses and drivers and negotiation of changes of services with Government. The patronage trends indicate a need for a radical reassessment of public transport services. There is however no clear objective for urban public transport and the first step in any such re-assessment is to identify community transport needs and consider whether Metro style services are the most appropriate for the future.

The Commission does not consider that it is required to make a recommendation on Metro fares. It has examined an allocation of Metro’s costs and revenues across service time periods. It has also compared Metro fares with those in other Australian capital cities and the fares charged by private operators in Tasmania.

Metro’s adult fares are the lowest of all but one of the Australian capital cities. Metro fares have not changed since July 1996. Since then, the Consumer Price Index has

increased by 2.2 per cent and the GST is expected to add 4.7 per cent (based on preliminary estimates) to Metro's net costs from 1 July 2000. Modelling in regard to the GST impact is expected to be finalised before the release of the Final Report.

In the current environment of declining patronage the Commission is reluctant to recommend significant increases in fares, even where such increase may be justified on economic grounds and by comparison with those provided by other operators in Tasmania and in other States. It is difficult to predict the impact that a change in fare may have on patronage. Some sectors of the public transport market are more sensitive to price than others, but the impact of a change in price coinciding with the introduction of the GST is difficult to forecast.

The Commission considers that an increase in Adult fares of 10 to 20 cents for short trips and 40 to 50 cents for long trips would bring Metro fares closer to those of other capital cities and with those typically charged by private sector Tasmanian operators.

In the light of information currently available, the Commission does not consider that concession fares should be changed. The fares for concession travel on Metro are generally higher, for comparable distances, than those charged for concession travel in most other Australian capital cities. However, the Commission does not yet have advice of the likely changes in concession fares in those cities in response to the introduction of the GST.

There are significant anomalies between the fares paid by students travelling with Metro and those travelling with private operators. In summary:

❖ students travelling on private contract services travel free;

❖ certain categories of students are also entitled to free travel on Metro and private route services: 40 per cent of students travelling with Metro and 55 to 60 per cent of students travelling with private route operators travel free;

❖ fare-paying students travelling on private route services typically pay 30 cents in an area not serviced by Metro and 70 cents in an area serviced by Metro; and

❖ fare-paying students travelling with Metro pay $1.20 per trip or 96 cents per trip on a 10-trip ticket.

In light of this comparison, increasing Metro student fares would widen what is already a significant gap.

Chapter 1 - Introduction

1.1 Terms of Reference

The Government Prices Oversight Commission (the Commission) is required by the Treasurer to conduct an investigation into the pricing policies of Metro Tasmania Pty Ltd (Metro). The Commission is required to produce a Final Report by 2 June 2000 in which it will make recommendations on the maximum prices to be charged by Metro for certain passenger bus services for the next three years.

The Terms of Reference for the Investigation are reproduced in Appendix A. Essentially, the Commission is required to:

> …investigate the pricing policies associated with the current provision of scheduled route services by Metro in the metropolitan areas of Hobart, Launceston and Burnie and the town of Ulverstone.

1.2 The Government Prices Oversight Commission

The Commission is an independent statutory body. It was established in 1996 following the commencement of *the Government Prices Oversight Act 1995*. Its role is to investigate the pricing policies of Government Business Enterprises (GBEs), Local Government Business and Agencies that are monopoly providers of goods and services in Tasmania.

An outline of the legislative and policy framework relating the Commission is provided in Appendix B.

The Commission established for this Investigation comprises Andrew Reeves (Commissioner) and Paul Baxter (Assistant Commissioner).

1.3 Matters to be Taken into Account

Apart from the specific issues raised in the Terms of Reference, Section 31 of the *Government Prices Oversight Act 1995* (GPO Act) specifies certain matters that the Commission must take into account in any investigation. This section of the Act is reproduced in Appendix A. These matters include:

- the cost of supplying or providing the monopoly service;
- any interstate benchmarks for prices, costs, revenues and returns on assets;

- the need to protect consumers from the adverse effects of the exercise of monopoly power;
- the need for the monopoly provider to be financially viable;
- the need for a reasonable return to the State, including the payments of dividends;
- any CSOs; and
- the quality of the supply of the monopoly service.

1.4 Background to the Investigation

The Government Prices Oversight Commission has been set up as part of Tasmania's commitment to the National Competition Policy (NCP) Agreements which were signed by the Council of Australian Governments (COAG) in April 1995. The purpose of the NCP is to promote competition in the interests of efficiency and economic growth, while dealing with social objectives and concerns about market failure.

As a guiding principle, the NCP anticipates that competition should not be restricted by legislative barriers unless it can be demonstrated that:

- the benefits to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

The NCP Agreements specifically include a requirement that State and Territory Governments consider establishing an independent source of prices oversight advice for their monopoly Government Business Enterprises (GBEs). Commonwealth prices oversight is to apply in the absence of an appropriate State body.

The COAG Competition Principles require an independent source of prices oversight advice with the following characteristics:

- it should be independent from the GBE whose prices are being assessed;
- its prime objective should be one of efficient resource allocation but with regard to any explicitly identified and defined CSOs imposed on a business enterprise by the Government or legislature of the jurisdiction that owns the enterprise;
- it should apply to all significant GBEs that are monopoly, or near monopoly, suppliers of goods or services (or both);
- it should permit submissions by interested persons; and
- its pricing recommendations and the reasons for them should be published.

1.5 Metro Submission to the Investigation

Prior to the release of the Issues Paper in February 2000, Metro had provided the Commission with a comprehensive submission, drawing on two research studies recently undertaken by Booz Allen & Hamilton (BAH). The BAH benchmarking assessment was a comparative analysis of Metro's operational costs and the BAH patronage study was an analysis of patronage, including possible initiatives to reverse the declining trend. A copy of the submission is available from the Commission's website http:\\www.gpoc.tas.gov.au. Hard copies may be obtained from the Commission or from Metro.

In addition to the Metro submission, other information obtained from Metro was an important input to the Issues Paper and this Draft Report.

1.6 Previous Metro Investigation

The Commission conducted its first Investigation into the pricing policies of Metro in 1996. The Commission concluded its Investigation and handed down the *Metro Fares Investigation Final Report 1997* in February 1997. The final report contained recommendations arising from the Investigation.

After considering the Commission's recommendations, the Government determined the maximum fares to be charged by Metro and these were set out in *the Government Prices Oversight (MTT Bus Fares) Order 1997* (the 1997 Order).

1.7 Key Developments since 1996 Investigation

1.7.1 Corporatisation of Metro

Prior to February 1998, urban public transport services in Hobart, Launceston and Burnie were provided by Metropolitan Transport Trust (MTT), a statutory authority constituted by the *Metropolitan Transport Act 1954*.

The Government corporatised MTT on 2 February 1998 as part of its transport reform package by:

- repealing the *Metropolitan Transport Act 1954*;
- passing the *Metro Tasmania Act 1997*, vesting ownership and management responsibility for services previously provided by the MTT in a new state-owned corporation, Metro Tasmania Pty Ltd; and
- transferring public policy and regulatory powers formerly vested in MTT to the administrative control of the then Department of Transport (now the Department of Infrastructure, Energy and Resources).

The principal objective of Metro as stated in Section 5 of the *Metro Tasmania Act 1997* is:

> to provide road passenger transport services in Tasmania and to operate those services in a manner consistent with sound commercial practice.

Prior to corporatisation, MTT entered into a Community Service Obligation (CSO) contract with the Government on 31 October 1997. The contractual arrangement replaced the previous system of funding for the provision of services. Upon the corporatisation of MTT, the contractual rights and obligations under the CSO contract were transferred to Metro.

Under the contract, MTT was to provide the quality of service as specified in MTT's Customer Service Charter as at 1 July 1997. The Charter outlined MTT's obligations to its customers and provided complaint mechanisms in the event that MTT fails to deliver. A copy of the Metro's *Customer Service Charter 1999* may be obtained from Metro.

The level of services required to be undertaken by MTT were those that were in existence as at the date of the signing of the Declaration of the CSOs with fares required to be consistent with those provided in the *Government Prices Oversight Commission (Metro Fares) Order 1997.*

1.7.2 Acquisition of Hobart Coaches

Metro acquired Hobart Coaches in May 1999 through a subsidiary company Metro Tasmania Coaches Pty Ltd. The business name 'Hobart Coaches' was retained as the trading name for the transport services.

The acquisition of Hobart Coaches enabled Metro to expand its services to the communities of Kingston, Blackman's Bay, Richmond, New Norfolk, Channel and Cygnet.

The main users of Hobart Coaches are school students, concession card holders and adult commuters. The company plans to continue its financial arrangement with the Government by being reimbursed on a monthly basis for the difference between fares charged and the approved commercial fare.

Although Hobart Coaches is a subsidiary of Metro, the Terms of Reference for the Metro Investigation do not cover Hobart Coaches.

1.7.3 Devonport Bus Service

In response to the Government's election commitment, a Metro style bus service was introduced into Devonport in February 2000. The new bus service has replaced previous bus services, which focused largely on student travel needs, with an integrated student and general route services of a similar standard to the Metro system.

A local private bus operator, Mersey Bus & Coach, was successful in tendering for the bus service contract. The service contract is of five year duration with a five year extension option if performance benchmarks are met.

The new Devonport bus service, MerseyLink, has adopted Metro's fare structures. Hence, although the Metro investigation does not cover bus services in Devonport, it may affect indirectly MerseyLink's future pricing policy.

1.7.4 Abolishment of Vehicle Licensing System

The Government introduced the *Passenger Transport Amendment Bill,* to implement reform in the public transport industry in 1999. The reforms proposed under this legislation include the elimination of the vehicle licensing system and replacing it with transport legislation designed to promote safety, competition, efficiency and quality. The *Passenger Transport Act 1997* (PTA) was enacted in late 1999 and it is expected that the legislation will be proclaimed in May 2000.

Prior to 1997, Metro had an exclusive right to provide scheduled route services within defined urban areas in Hobart, Launceston and Burnie. This exclusive right was effectively withdrawn when the Metropolitan Transport Trust was abolished and Metro Tasmania Pty Ltd was created under the *Metro Tasmania Act 1997*. Once the PTA is proclaimed, Metro will be authorised under the PTA to provide services in the same manner as other operators will be authorised to provide route services.

The legislative framework for the transport industry will change markedly following the proclamation of the PTA. The Second Reading Speech of the Minister for Infrastructure, Energy and Resources states that the Act makes provision for the public vehicle licensing system to be replaced by a system of performance based contracts. The basic rules for transitional arrangements are to be set out in Regulations that will ensure that regular passenger transport services are provided with a service contract. School bus service providers and Metro already have contracts. Private route services will be provided with interim contracts to replace their public vehicle licences.

The new legislation also raises the prospect of competitive tendering and contracting for the provision of regular passenger transport services. The first of these was introduced with the tendering for a 'Metro style' service in Devonport, a contract for which was executed with Mersey Bus and Coach for services, which commenced in February 2000.

The Metro submission describes Metro's perception of the policy for its future contracts:

> Under the new legislative framework the Government is moving to a purchaser-provider model for the provision of essential ('core') regular passenger transport services, and the free market provision of non-essential bus services.
>
> In **urban areas** the precise approach to be adopted for reviewing bus services is still being finalised. The basic model that has been developed to date involves first defining the urban areas within which an integrated regular public transport system is to be provided. There are likely to 8-10 areas including 3-5 areas in Hobart, 2-3

> areas in Launceston plus Devonport, Ulverstone and Burnie. 'Core' regular passenger transport services within each of these areas (provided by a mixture of private bus operators and Metro Tasmania) will be subject to a review process on an area-by-area basis so as to ensure their effective integration and coordinated delivery.
>
> Within this framework the current Metro Tasmania Agreement will first be extended for 12 months to 30 June 2001. During this period the process for reviewing urban area bus services will be finalised and the urban areas defined. Metro will then receive a series of performance based service contracts for the services that it undertakes within each of these designated urban areas. There will also be a number of private sector service contracts for routes within these designated urban areas. Finally, all public transport service contracts within each area will be reviewed on an area-by-area basis and replaced by an integrated long-term (5 years with 5 year extension option) core service area contract. This is the basic model that has been adopted for the development of the new “MerseyLink” service contract in Devonport-Latrobe. Lessons learnt from this initiative will help shape the review process that will apply for other urban areas.

Once the new legislation is in operation, transport operators, including Metro, may have their operations opened to competition sometime after June 2000.

1.7.5 Future Contracts

The Department of Infrastructure, Energy and Resources has advised the Commission that the service contract for the period beyond 2001 will address such matters as:

- service definition;
- benchmarking;
- performance monitors;
- indexation; and
- mechanism for the rationalisation of services.

The necessity for a recognition of the need for flexibility in defining services is noted in submissions received from the Launceston City Council and from RDM Cotgrove. Mr Cotgrove further suggests that bus services would be more efficiently and equitably provided at the local level, with decisions regarding bus routes, timetable, fare structures and other service levels being determined democratically and transparently by ratepayer elected board of management.

Such a radical redesign of the governance of public transport is beyond the scope of matters which the Commission is required to consider, but the Commission does consider that it is essential that local community have their say in the services provided by Metro. The Commission notes that Metro does consult with identifiable local interest groups, but

there is probably more to be done, possibly through Local Government, to understand and address community transport needs.

This reassessment of services is, in the Commission's view, essential before long-term commitments are made to purchase substantially the same services.

1.7.6 The New Tax System

The introduction of the New Tax System incorporating the Goods and Services Tax (GST) in July 2000 will affect the cost and fare structures of Metro. In developing its recommendations, the Commission has considered Metro's estimate of the potential effect of the New Tax System on Metro's costs and revenue. This is discussed in detail in Chapters 4 and 5.

1.8 Responses to Issues Paper and Consultation

The Commission circulated eighty copies of the Issues Paper seeking comments on various issues concerning the Investigation. Nine submissions were received.[1]

No public hearing was conducted but meetings were held with a range of people and organisations that expressed interest in the Investigation. In particular, eleven Councils in the southern, northern and north-western regions with Metro bus services were invited to information seminars to provide feedback to the Commission on the Issues Paper and other relevant issues. Representatives from six Councils attended and provided valuable information concerning Metro services and community public transport needs.

1.9 Program and Consultation

The Government Prices Oversight Commission encourages public participation in the Metro Fares Investigation and seeks submissions on any of the matters contained in this Draft Report.

The closing date for written submissions to be made to the Commission on this Draft Report is 5 May 2000.

After taking into account the responses to the Draft Report, the Commission will publish its recommendations in a Final Report by 2 June 2000.

[1] See Appendix C for key points raised in the submissions. All submissions are available on the Commission's website: www.gpoc.tas.gov.au.

Chapter 2 - Metro Operations

2.1 Metro Services

2.1.1 Level of Services

Metro provides urban passenger bus services in the cities of Hobart, Launceston and Burnie (including Wynyard and Ulverstone). Services include school services, passenger route services and a range of charter services.

Metro operates weekday services in Hobart, Launceston and Burnie, evening services in Hobart and a minor evening service in Launceston. Weekend and public holiday services are only available in Hobart and Launceston.

In 1998-99, Metro provided about 1 600 scheduled route services per day in Hobart, 550 in Launceston and 180 in Burnie (including Wynyard and Ulverstone).[2] In aggregate, total bus services in these three centres covered 10.4 million bus kilometres annually and provided about 9.6 million passenger trips per year.[3] Table 2.1 below shows total passenger trips from 1994-95 to 1998-99.

Table 2.1: Total Passenger Trips (including transfers, charter and contract services)

	Hobart	Launceston	Burnie	Total
1994-95	8 750 000	2 270 000	750 000	11 770 000
1995-96	8 583 000	2 261 000	714 000	11 558 000
1996-97	7 908 000	2 086 000	645 000	10 639 000
1997-98	7 390 000	1 993 000	613 000	9 996 000
1998-99	7 165 000	1 855 000	548 000	9 568 000

Source: Metro Annual Report 1998-99

[2] Metro submission, p36.

[3] Metro submission, p9.

2.1.2 Service Quality

The level of Metro's service quality is prescribed in its Customer Service Charter.[4] Metro's performance as against these standards is measured by independent assessment and published in local regional newspapers.

A recent independent assessment found that Metro continued to offer a very high standard of service and there were no obvious overall weaknesses in Metro's performance.[5] The Waratah-Wynyard Council submission commends Metro for the extended route service within Wynyard and Somerset.

2.2 Metro Patronage

Passengers of Metro's timetabled services are grouped into three categories:

- adult (full fare);
- adult concession (including tertiary students); and
- child/student.

Metro's timetabled services are divided into four different time periods:

❖	Peak	3.01am to 8.59am
		2.46pm to 6.20pm
❖	Interpeak	9.00am to 2.45pm
❖	Evening	6.21pm to 3.00am
❖	Weekend	Saturday, Sunday and Public Holidays.

2.2.1 Current Metro Patronage

In 1998-99 Metro carried about 9.57 million passengers (total boardings), of which 20 per cent were full fare adult passengers, 36 per cent adult concession passengers and 44 per cent child/student passengers[6] (see Figure 2.1 below).

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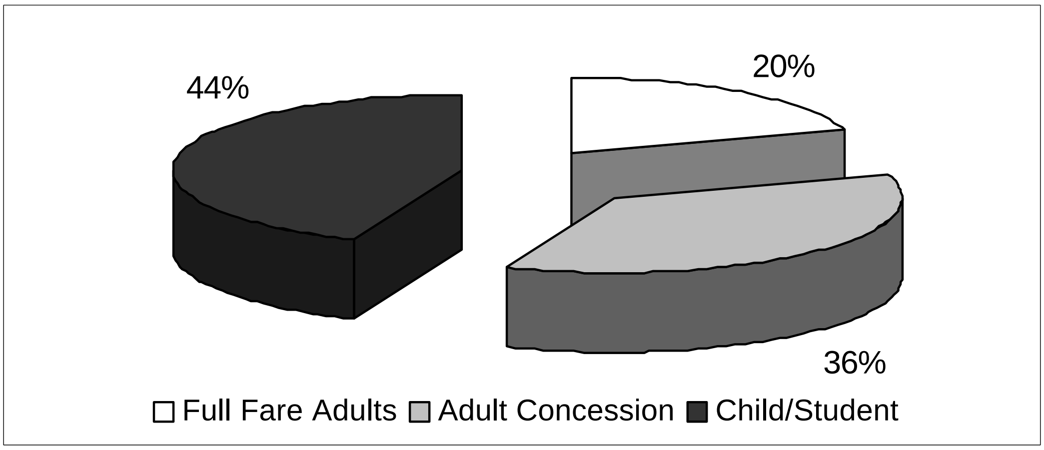
[4] Metro *Customer Service Charter* may be obtained from Metro. The relevant Quality Standards are reproduced in Appendix C.

[5] *Shop 'n Tell Report* November 1999 – Marketing Research Report – Metro, p66-67.

[6] Metro submission, p10.

Figure 2.1: Current Metro Patronage



Source: Metro submission, p10.

Ninety-one per cent of Metro's patronage is in the weekday daytime period up to 6.30 pm. Of the weekday daytime patronage 19 per cent is on school special services, 47 per cent is on peak period route services and the remaining 25 per cent on interpeak route services. The remaining patronage is split 1.5 per cent weekday evenings and 7.5 per cent weekends and public holidays. Table 2.2 shows the level of patronage in each time period for the three cities.

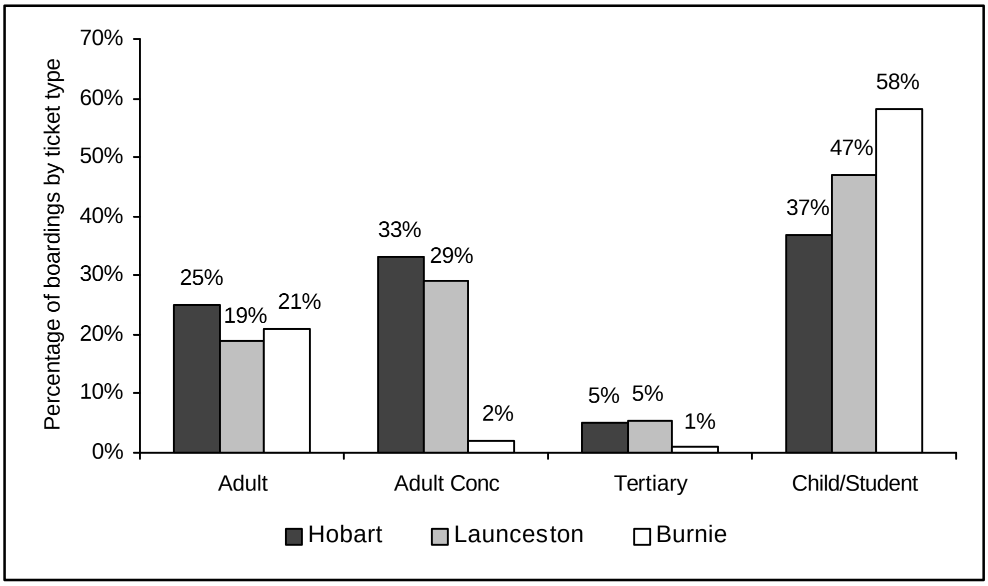
Table 2.2: Level of Patronage by Time Period

	Hobart %	Launceston %	Burnie %
Peak	62	80	80
Interpeak	27	15	20
Evening	2	1	na
Weekend	9	5	na
All Periods	100	100	100

Source: Derived from Metro submission, p60.

Figure 2.2 summarises passengers by ticket type in the three centres in 1998-99. It indicates that full fare adult passengers are only 25 per cent of total patronage in Hobart, 19 per cent in Launceston and 21 per cent in Burnie. Child/Student passengers account 37 per cent of the total passengers in Hobart, 47 per cent in Launceston and almost two thirds in Burnie. The proportion of Adult Concession passengers is highest in Hobart at 33 per cent followed by Launceston at 29 per cent and Burnie at 2 per cent.

Figure 2.2: Passengers by Ticket Type 1998-99



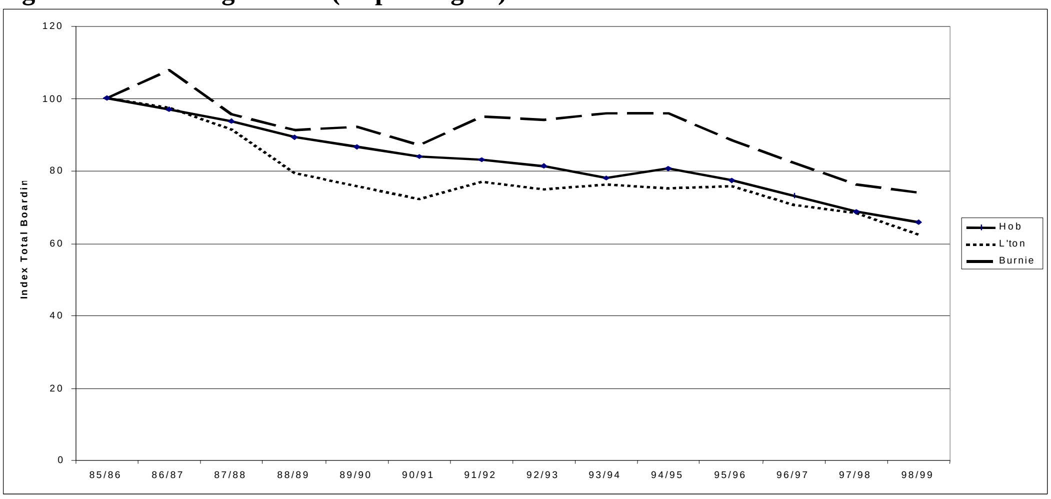
Source: Derived from Metro submission, p58.

2.2.2 Metro Patronage Trends

2.2.2.1 Patronage Trends since 1985-86

Since 1985-86, patronage in each of the three categories has fallen in all three centres. Figure 2.3 below shows that from 1985-86 to 1998-99, total patronage fell by 34 per cent (3.2 per cent per annum) in Hobart, 38 per cent (3.4 per cent per annum) in Launceston, and 26 per cent (2.3 per cent per annum) in Burnie. In particular, Figure 2.3 shows that over the three years since 1995-96, patronage fell sharply in all three centres – 5.2 per cent per annum decline in Hobart, 6.3 per cent per annum in Launceston and 5.7 per cent per annum in Burnie.

Figure 2.3: Patronage Trend (all passengers) 1985-86 to 1998-99

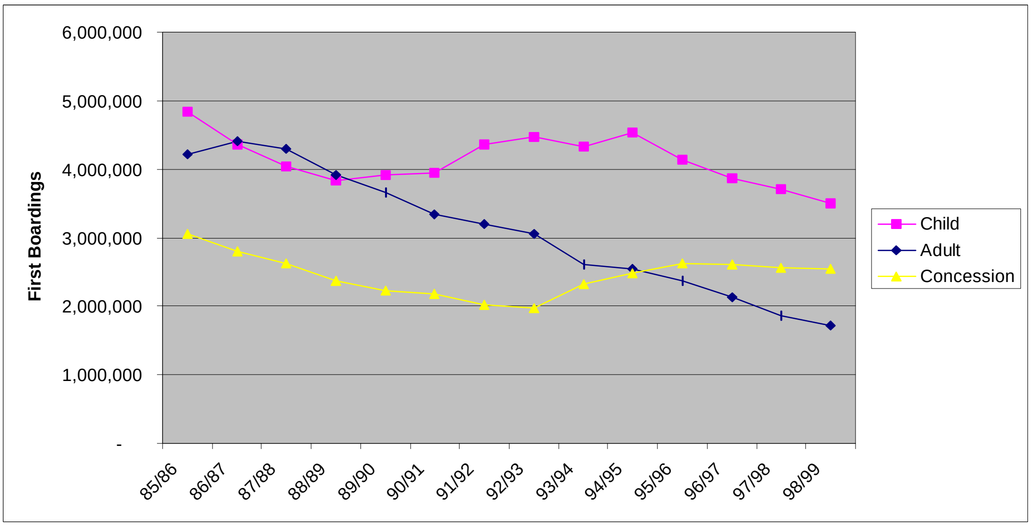


Source: Metro submission, Appendix E, p49.

Full adult patronage has fallen most rapidly since 1985-86, with an overall fall of 57.5 per cent (6.4 per cent per annum). For the same period, child/student patronage has fallen 25 per cent (2.2 per cent per annum) and adult concession patronage has fallen 24 per cent (2.1 per cent per annum). During this period, there were increases in fares in July 1991, early 1995 and mid 1996.

Figure 2.4 indicates that adult concession patronage began to increase in 1993-94 and stabilised after 1995-96. The increase in adult concession patronage and the corresponding decrease in full adult patronage in 1993-94 coincided with the extension of full pensioner concessions to all part pensioners by the Government in that year.[7] This may partly explain the considerable increase in adult concession patronage between 1993-94 and 1995-96 and account for some of the decline in full adult patronage.

Figure 2.4: First Boardings 1985-86 to 1998-99

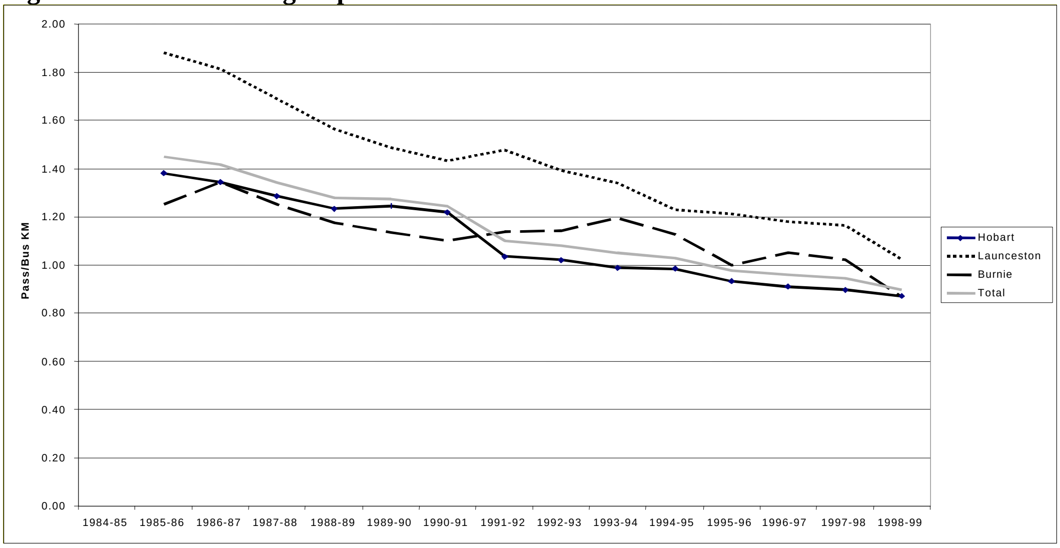


Source: Metro

Since 1985-86, total bus kilometres in each centre has increased by around 10 per cent while the patronage levels have been falling. Increases in services have not been sufficient to compensate for the apparent loss of bus patronage. As a result, the average bus loadings for the three centres have fallen by around 35 per cent to 40 per cent. The passenger boardings/bus kilometre ratios have fallen by 37 per cent in Hobart, 46 per cent in Launceston and 30 per cent in Burnie. Figure 2.5 below summarises the trends in Metro passengers per bus kilometre since 1985-86.

[7] Tasmania Budget Papers 1993-94.

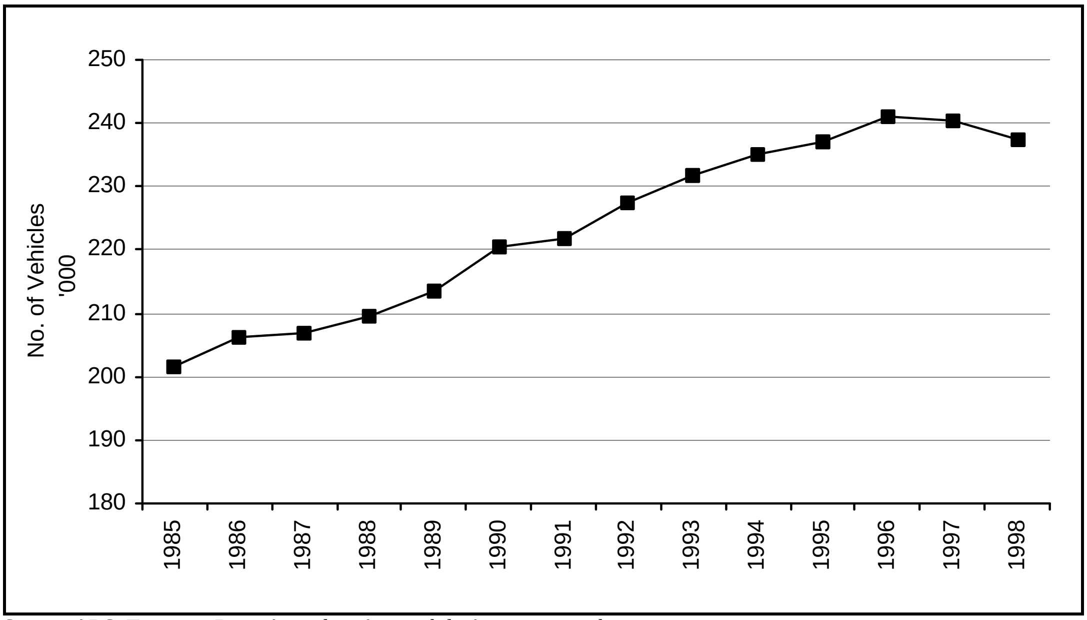
Figure 2.5:Metro Passengers per Bus Kilometre Trends



Source: Metro submission, Appendix E, p53.

From 1985 to 1998, Tasmania passenger vehicle registrations grew from 201 700 to 237 500, a total increase of 17.8 per cent for the 13 year period (see Figure 2.6). The total population growth in Tasmania for the same period was estimated to be about 6.6 per cent.[8] The increase in car ownership in Tasmania may be a significant factor in the decline in Metro's patronage for the corresponding period.

Figure 2.6: Cars and Station Wagons on Registry 1985-1998



Source: ABS; Transport Data: Australian Automobile Association website.

[8] *Tasmanian Year Book 2000*: Estimated total population: 1985 - 442 800, 1998 – 471 900.

2.2.2.2 Patronage Trends since 1996 Investigation

There was a large reduction in first boardings of 8.4 per cent in 1996-97 compared to the previous year. Metro submits that the large decline was due to the nature and extent of the fare increase in 1996[9] (see Chapter 3 for details of the 1996 fare increase). Subsequent years showed a smaller rate of decline in patronage of 5.5 per cent in 1997-98 and 3.9 per cent in 1998-99.[10] Metro attributes the fall in the rate of decline in subsequent years to its efforts and an improving Tasmanian economy. Table 2.3 below summarises Metro's first boardings on timetabled services since 1995-96.

Table 2.3: First Boardings (excluding transfers, charter and contract services)

Passenger	Number of Trips				Patronage per Categories			
	1995-96 ’000	1996-97 ’000	1997-98 ’000	1998-99 ’000	1995-96 %	1996-97 %	1997-98 %	1998-99 %
Adult	2 429	2 131	1 916	1 766	26	25	24	23
Adult Conc	2 648	2 563	2 498	2 497	29	30	31	32
Child/Student	4 227	3 836	3 646	3 485	45	45	45	45
Total	**9 304**	**8 530**	**8 060**	**7 748**	**100**	**100**	**100**	**100**

Source: Metro Annual Reports 1995-96, 1996-97, 1997-98 and 1998-99.

Metro had previously planned to halt the decline in patronage by the year 2001-02.[11] Metro now considers that the impact of GST may make this target impossible to attain.[12] The target date has now been revised to year 2003-04.

Although the current Investigation is concerned with Metro's pricing policy for the next three years, available data concerning Metro's patronage projections are for longer periods.[13]

Table 2.4 below shows Metro's patronage forecast for the next five years (2000-01 to 2004-05) in the absence of changes in real fares, service levels or other service initiatives. Metro forecasts a reduction in total public transport trips by 12.7 per cent in Hobart, 10.9 per cent in Launceston and 13.6 per cent in Burnie. Metro identifies a declining population, particularly in the 0-29 age bracket, and high levels of unemployment in Tasmania as two major factors contributing to the projected reduction in patronage.

[9] Metro submission, p34.

[10] Figures based on Metro's Annual Reports for 1995-96, 1996-97, 1997-98 & 1998-99.

[11] Metro submission, p20.

[12] See discussion of the impact of GST on Metro's patronage later in this chapter.

[13] Available data on Metro's patronage projections are for 5, 10 & 15-year periods.

Table 2.4: Patronage Projection for Next Five Years

Centre	Decline in Patronage (%)	
	Total Decline	**Average Annual Decline**
Hobart	12.3	2.46
Launceston	10.9	2.18
Burnie	13.6	2.72

Source: Metro submission, Appendix E, p67.

2.3 Metro Market Share and Market Profile

2.3.1 Market Share

Metro provides about 3.1 per cent of all trips made in Hobart, 2.3 per cent in Launceston and 0.9 per cent in Burnie.[14] Metro notes that the bus market share for work trips is significantly higher than for trips overall, in particular for CBD-oriented work trips. Metro caters for about 15 per cent of all work trips to and from Hobart CBD.

The bus market share in school trips is estimated at 20-25 per cent for Tasmanian urban areas overall. Metro provides 23 per cent of Tasmanian school bus trips.

2.3.2 Metro Market Profile

Metro's full fare passengers have fallen from 35 per cent of total patronage ten years ago to 20 per cent in 1998-99. Metro notes that bus usage is relatively high among the lower income groups. The majority of Metro's passengers are people who are not employed (home-makers, students, pensioners and unemployed) or those in relatively poorly-paid jobs.[15]

A study commissioned by Metro found that 57 per cent of bus users earn less than $16 000 per annum.[16] Only a small percentage of Metro's passengers are user by choice, in the sense of having a car available but using the bus in preference. This means that a bus is often the only viable means of transport for the majority of Metro's passengers.

Metro suggests that its primary role at the present appears to be catering for the transport disadvantaged (those who do not have a car available), many of whom are also economically disadvantaged. As a result, Metro considers that social impacts of any fare increase should be a major consideration in future pricing decisions.

[14] Metro submission, p11.

[15] Metro submission, p11.

[16] Metro submission, p68.

2.3.3 Journey to Work

Table 2.5 indicates that on 1996 census day, only 3.6 per cent of Tasmanian workers used buses as their sole means of travel to work compared with 86 per cent who used cars as their sole means of travel to work.

In comparison, the 1992 census found that 71 per cent of workers in Tasmania used cars for transport on an average day comparing with 5.5 per cent using buses.

Since the 1992 census, the proportion of bus users among Tasmanian workers had declined whereas car travel by workers had increased. The increase in the proportion of car users is also consistent with the increase in car ownership since 1985 as discussed in section 2.2.2.1.

Table 2.5: Methods of Transport to Work on Census Day 1996- Tasmania

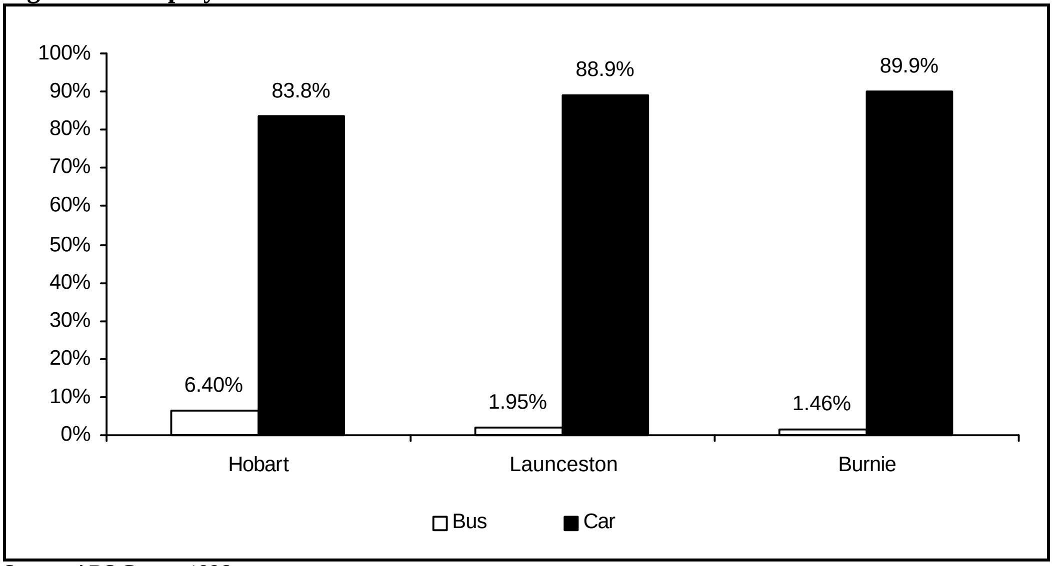
	Persons (one method only)	**%**
Car		
driver	109 633	76
passenger	14 441	10
Walking	9 466	6.6
Bus	5 227	3.6
Train, ferry, tram	115	*
Bicycle	964	*
Taxi	551	*
Motor Cycle	838	*
Other method	2 892	2
Total	**144 127**	**100**

Source: ABS Census 1996

Figure 2.7 shows the proportion of workers in Hobart, Launceston and Burnie[17] using buses and cars as their sole method of transport to work on 1996 census day. It was found that 6.4 per cent of workers in Hobart, 1.94 per cent in Launceston workers and 1.46 per cent in Burnie used a bus to travel to work. More than 80 per cent of workers in the three regions chose to travel to work by car.

[17] Hobart region includes: Brighton, Clarence, Derwent Valley, Glenorchy, Hohart & Kingborough. Launceston region includes: Launceston, Meander Valley & West Tamar. Burnie region includes: Burnie, Waratah/Wynyard & Central Coast. (Source: ABS census 1996).

Figure 2.7:Employed Persons Method of Travel to Work



Source: ABS Census 1996.

The data from Australian Bureau of Statistics (ABS) highlights the importance of the car as the principal means of transport in Tasmania. Some of the major reasons for the low usage of buses in Tasmania are summarised in the following section.

2.3.4 Reasons for Use of Bus Services

Market research studies by Metro and the census data from ABS found that:[18]

- non-availability of a car was the major reason given for bus use, followed by convenience, lack of parking problems and cost advantage over cars;
- the ranking (in descending order) of 'best factors about using buses' was: convenience to home/work, service frequency/reliability, lack of parking problems, comfort, and helpful drivers;
- dominant reasons given for car usage instead of bus were 'greater convenience and need to carry parcels'. Ease of parking, unsuitability of bus timetables, and the need for car during the day were also given as significant reasons for car usage; and
- the dominant factor discouraging car users from using buses was the restrictive nature of bus timetables. Other significant factors given were that the bus took too long, the bus stop location was inconvenient and the bus did not serve the desired destination.

The impact of increased car ownership and the desire of people to decide their own travelling behaviour was also noted in the submission of RDM Cotgrove.

[18] Metro submission, Appendix F, p69.

2.4 Metro Patronage Initiatives

While the decline in patronage of Metro is consistent with that experienced throughout Australia,[19] the continual decline has been a major concern for Metro. As discussed above, Metro cites high levels of unemployment and a net decline in population as two key contributors to this outcome.[20] Projections of patronage trends by Metro forecast a fall in average public transport trips per person of 27-30 per cent in the three centres over the next 15 years.[21]

In addition to high levels of unemployment and a net decline in population, a number of factors arising from the New Tax System may also adversely affect Metro's patronage level. These include:

- expected falls in car purchase prices around 10 per cent;
- increase of disposable income because of reductions in personal tax rates; and
- fare increases as a result of the net effect of GST.

Metro estimates that the combined effect of the above factors would result in a reduction in patronage of approximately 2-3 per cent in the short to medium term.[22]

To ensure its services better meet customer needs, thus enhancing patronage, Metro has implemented various service level and service quality improvements since 1996. The key service initiatives include:

- doorstopper services;
- shopper services;
- courtesy zone;
- Burnie area service enhancement; and
- summer holiday services.

Metro acknowledges that despite these initiatives, patronage has continued to fall. Metro is currently considering a series of initiatives recommended by the BAH 'Demand

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[19] Metro submission, p11.

[20] Metro Annal Report 1998-99.

[21] Assuming no changes in fares (real terms), service levels (or other service initiatives) and in current transport and development policies. (Source: 'Demand Forecast' Project conducted by Booz Allen & Hamilton).

[22] Metro submission, p21, assuming the net effect of GST is 4.7 per cent.

Forecast consultancy to increase future patronage. The initiatives under four main headings are:[23]

- ❖ service enhancement initiatives;
- ❖ asset and infrastructure initiatives;
- ❖ market, information and customer care initiatives; and
- ❖ monitoring, research and planning initiatives.

These initiatives are to be developed and appraised in more detail by Metro. Metro is preparing an Action Plan to prioritise the initiatives. Metro estimates that:[24]

- ❖ a once-off patronage increase in the order of 10 per cent from the package of service and marketing and information initiatives might be expected if fare levels and the total amount of service provided are unchanged;
- ❖ a 50 per cent increase in off-peak services overall might result in a total patronage increase in the order of 5-10 per cent; and
- ❖ a reduction in (real) average fares of 50 per cent might result in a patronage increase in the order of 15-20 per cent.

Metro states in its submission that:[25]

> These three effects are largely additive, but are of a once-off nature. If all were implemented, they would broadly counteract the projected decline in 'base' demand over the next 15 years, ie in 15 years time the total patronage level would be similar to the current level. However, if less substantial (or no) improvements in service levels and/or reductions in fares are implemented, then it is probable that overall patronage will continue to fall, despite any efforts of Metro management.

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[23] Metro submission, p16.

[24] Metro submission, p16.

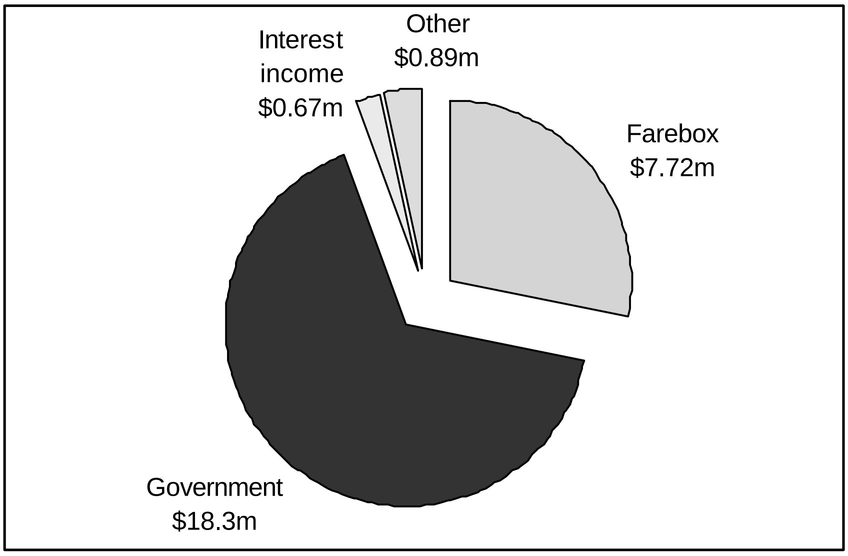
[25] Metro submission, p16.

Chapter 3 - Revenues and Financial Performance

3.1 Revenues

Metro's revenue comes mainly from two sources – fare revenue and Government contract funding. The composition of revenues for 1998-99 is illustrated in Figure 3.1 below.

Figure 3.1: Metro Revenue 1998-99



Source: Metro Annual Report 1998-99, figures do not include revenue from subsidiary, Hobart Coaches.

Figure 3.1 shows that two-thirds of Metro's 1998-99 total revenue was from Government contract funding, with about 28 per cent of total revenue coming from fares paid by passengers.

3.1.1 Fare Revenue

There have been two Metro fare increases since 1991:

- in January 1995: an increase of around 10 per cent on adult and child single trip fares and around 5 per cent on adult and child 10-trip fares; and
- in July 1996: an increase of around 10-15 per cent on adult and child single trip fares and around 20 per cent on adult 10-trip fares (to standardise the discount on these fares at 20 per cent relative to single trip).

As discussed in the Issues Paper, following an initial increase in total fare revenue in 1996-97, Metro's revenue has continued to decline. The decline in revenue, including revenue from charter services, for the last three years is consistent with the falls in patronage for the same period.

3.1.1.1 Current Fares

The same schedule of fares applies in Hobart, Launceston and Burnie. The current fares are set out in Table 3.1.

Table 3.1: Fares as at January 2000

Category	Single	Daily	10 Trip	10 Day	Month
Adult					
Section 1-2	1.20		9.60		
3-4	1.60		12.80		
5-7	1.90		15.20		
8-10	2.10		16.80		
11-15	2.80		21.60		
Off-peak multi trip		3.10		24.00	
Adult Concession					
All sections	1.20		9.60		
Concession off-peak multi-trip		1.90		15.20	
Seniors all day multi-trip		2.10		18.00	
Family					
Family off-peak multi-trip		9.00			
Children & School Students					
Under 5 years of age			no charge		
- other than to/from school or day care centre					
- day care centre group travel	.60				
Child Under 16 years of age					
- all sections	1.20	1.90	9.60		38.40
Tertiary Students (full time)					
Section fares	As per adults		10.00		40.00
Tertiary off-peak multi-peak		1.90		15.20	
Parcels					
- other than passengers' luggage of approved size & weight		1.20			

Source: Metro submission, p26.

The Metro fare structure comprises five fare types (single, daily, 10 trip, 10 day and monthly) and six fare levels (adult, adult concession, family, children and school students, full time tertiary students and parcels). Fares vary according to the number of sections travelled and time of travel (ie. some off-peak fares are available).

3.1.1.2 Fare Comparisons

The Commission, in preparing this Draft Report has considered a number of issues in relation to fares including an assessment of Metro's fares in comparison with both private and interstate public sector operators. Other matters considered by the Commission included: Metro's fares elasticities, fare relativities, social impacts of changes in fares and fare structures, the indexation of fares and the GST.

3.1.2 Government Funding

Effective from 1 July 1997, the then Minister for Finance issued a Declaration of CSOs to the, then, MTT. A Contract for the provision of CSOs was signed on 31 October 1997. On establishment of Metro Tasmania Pty Ltd, the Contract was assigned[26] to the newly corporatised body. The Metro Tasmania Act also makes provision for the Minister to enter into agreements with Metro, consistent with its principal objective, for the provision of services.

3.1.3 Current Funding Arrangements

The CSOs declared fell into two categories:

- *Concession CSOs* – ie, concessions provided to specified categories of passengers including school children and pensioners; and

- *Price/Service CSOs* – ie, the differential between a commercial fare and the full adult fare charged by Metro, and for the provision of non-commercial bus services provided by Metro (including late night services, higher frequency in-day, weekday and weekend services).

The services required to be undertaken were those that were in existence as at the date of the signing of the Declaration of the CSOs with fares required to be consistent with those provided in the *Government Prices Oversight Commission (Metro Fares) Order 1997*. The standards and quality of service under the Contract are defined to be those as specified in Metro's Customer Service Charter dated 27 June 1997, as updated from time to time. The Contract also requires Metro to:

- comply with all relevant legislation, licence conditions and any other obligations detailed in its Customer Service Charter;

- maintain its vehicles in good mechanical order;

- supply the Minister with quarterly patronage reports; and

- details of scheduled trips not undertaken, and the reasons for the non-performance.

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[26] *Metro Tasmania (Transitional and Consequential Provisions) Act 1997*, Section 9.

Schedule 4 of the Contract sets out the level of funding for the three-year period, being for:

- 1997-98 - $18.824 million;
- 1998-99 - $18.3 million; and
- 1999-2000 - $18.3 million;

adjusted by an agreed appropriate index, with the amounts being payable monthly in advance.

The Contract also includes a provision for performance reviews in relation to its service delivery, and the Minister may adjust the funding to reflect any net savings to Metro in the event it fails to deliver the required services.

3.1.4 Future Government Funding Arrangements

Metro acknowledges that the range and value of concession fares is a matter for Government. However, it is of the view that it is important that the provision of these fares is supported by appropriate arrangements that recognise the full value of revenue foregone by Metro.

The current Contract expires on 30 June 2000 and at this stage it is anticipated that it will be extended for one year. Metro has indicated that it is seeking a small number of amendments to the existing Contract. It is of the view that a truly commercial contract would include a ‘return on capital’ component in the price calculation. In addition, it is seeking to have the Contract payments indexed on the same basis as payments made to private contractors for the provision of concessions.

Metro considers that these amendments would simplify benchmarking against private sector passenger transport companies with a more direct comparison of costs and prices. Further, this would also be advantageous if at any future date competitive tendering for passenger transport services in Tasmania was undertaken as the full cost (ie operational costs plus costs of capital) would be known.

Other comments received in relation to the future funding arrangements were from Mr Cotgrove at the University of Tasmania and the Launceston City Council. Mr Cotgrove is of the view that it is preferable to make direct payments to the transport disadvantaged rather than via a contract with Metro. The Launceston City Council is of the view that ‘…if there is a subsidy to pay to a Government run enterprise to deliver the service then in the interests of transparency the same subsidy should be paid to a private operator’. However, whilst the Commission acknowledges these comments, consideration of these matters is beyond the scope of this Investigation.

Further comments in regard to matters to be included in future contracts are made in section 1.7.5.

3.2 Financial Performance

Table 3.2 below shows the forecast revenue, expenses and profitability over the current financial year and the three-years of pricing period, 1 July 2000 to 1 July 2003.

Table 3.2: Metro Tasmania Summary Profit and Loss Statement($ nominal)

	1999-2000 $'000	**2000-01 $'000**	**2001-02 $'000**	**2002-03 $'000**
Fares-box Revenue[1] – Route & School Services	7 091	6 407	6 343	6 343
Contract Revenue[2]	18 725	18 551	18 880	19 427
Other Revenue	2 194	2 048	1 941	1 611
Total Revenue	**28 010**	**27 006**	**27 164**	**27 381**
Operating Expenses – Route & School Services	27 205	26 503	26 713	26 925
Other Expenses	804	504	451	456
Total Expenses	**28 009**	**27 007**	**27 164**	**27 381**
Net Profit/Loss before/after Tax	**0**	**0**	**0**	**0**

Source: Metro Tasmania

Note 1: Assumes no increase in fares other than net impact of GST

Note 2: Contract revenue for the three years based on current estimate adjusted for CPI and net of GST

The above financial statements assume current levels of fares, Contract revenue, trends in passenger numbers and Metro's own assumptions regarding costs and efficiencies over the period to 30 June 2003.

3.2.1 Financial Performance Indicators

Metro noted in its submission that its operating expenditure per bus kilometre has improved[27] (29 per cent) over the previous 10 year period and that its unit costs have been reduced significantly[28] over the period since the 1996 Investigation (overall by 11 per cent). An underlying improvement in overall cost effectiveness resulted in a general improvement in profitability over the same period. However, as a significant proportion of its income derives from Government contributions and the Contract does not include an allowance for a return on equity, Metro's return on equity and return on assets, as shown in Table 3.3, would remain below expected normal commercial benchmarks for the pricing period.

[27] Metro submission, p12.

[28] Metro submission, p20.

Table 3.3: Selected Financial Performance Ratios

Ratio	1999-00 Estimate %	2000-01 Target %	2001-02 Target %	2002-03 Target %
Return on Equity	2.8	0.0	0.0	0.0
Return on Assets	1.4	1.0	0.8	0.8
Debt to Equity	23.5	20.3	19.3	19.4
Interest Cover	100.0	100.0	100.0	100.0

Source: Metro

3.2.1.1 Return on Equity and Return on Assets

The return on equity and return on assets indicators for the period 1999-2000 to 2002-03 are below expected commercial targets due to the structure of the Government funding arrangements which comprise more than two-thirds of all Metro's receipts.

As discussed in the Issues Paper, Metro was seeking to have included an 8 per cent return on equity component included in its funding calculations. On the assumption that this amendment is made to the Contract for 2000-01, Metro was targeting an 8 per cent pre-tax nominal rate of return on equity. This rate is marginally higher, one per cent, than the current nominal Commonwealth 10-year Bond rate yield, the most commonly used estimate of the risk free rate.

3.2.1.2 Debt to Equity Ratio

The debt to equity ratios for the three-year period are significantly below the lower bound of the range expected in a commercial environment (typically between 30 and 60 per cent, depending on the business and its risk profile). The Commission considers that a higher ratio, together with the setting of a commercial benchmark rate of return, would place Metro in an operating framework more commensurate with the private sector. However, the debt to equity ratio is a matter for the Board and the Government as owner to consider.

3.2.2 Returns to Government

The Government's policy in relation to its GBE and State-owned companies (SOC) is for dividend payments equal to:

- at least 50 per cent of after tax profits; or
- an amount such that when added to income tax equivalent payments the total of dividends and tax equivalent payments will equal 70 per cent of pre-tax profits.

Metro has not been subject to the dividend payment policy on the basis that it has been running on a break-even basis with Government payments excluding an element for return on assets. However, Metro has been subject to the full tax equivalent regime, ie both income tax and wholesale sales tax equivalents, and also subject to guarantee fees.

Table 3.4 shows the current and projected returns to Government for the period 1998-99 to 2000-01.

Table 3.4 Projected Returns to Government

	1999-00	2000-01	2001-02	2002-03
Wholesale sales tax equivalent	486	0	0	0
Guarantee Fees	38	34	31	31
Dividends	0	0	0	0
Total	**524**	**34**	**31**	**31**

Source: Metro submission

Note 1: Wholesale sales tax equivalent regime will cease with the commencement of the New Tax System

As the issue of the inclusion of a rate of return component in Contract payment for future years has not been resolved and with a forecast operating result of zero after tax profits, no dividend has been provided.

3.2.3 Implications of the Draft Recommendations

Metro has also undertaken an analysis of the potential impact on its operating statement and financial position based on the assumptions underlying the recommendations contained in this Draft Report.

As discussed in Chapter 4, the Commission's draft recommendation for maximum revenues (fare-box and Government contribution) is $26.4 million per annum. This compares with the 1999-2000 budget estimate of $25.8 million, and the change would not have a significant impact on Metro's financial performance. The combined effect of the increase in revenue and on-going reduction in operating costs could however significantly improve Metro's profitability.

3.2.4 Non-Financial Performance Indicators

The non-financial performance indicators are reflective of the underlying cost structures of Metro and any analysis of the financial performance of Metro must be undertaken in the context of its service performance. In this regard Metro has provided the Commission with the information contained in Table 3.5. The actual results and the forecast trends for the current and next financial year in relation to employee numbers are relatively stable.

Table 3.5: Non-Financial Performance Indicators

	1999-00 est	2000-01 est	2001-02 est	2002-03 est
Boardings per km	0.89	n.a	n.a	n.a
Employees (FTE) per million kms	35.5	35.5	35.0	34.6
Employees per peak bus	2.0	2.0	1.9	1.9
Vehicles in excess of maximum daily demand %	11.2	11.2	n.a	n.a
Kilometres per vehicle	47 935	48 579	n.a	n.a
On-time performance %	93	96	n.a	n.a

Source: Metro
n.a: Not Available

A summary of the comparative performance of private sector and public sector operators on non-financial performance indicators is provided in Appendix J of the Metro submission.

It is noted that Metro is planning to review a number of areas with the intention of improving overall efficiency. These issues are also discussed in the Metro submission.

Chapter 4 - Draft Recommendation of Maximum Prices

The Commission is required to recommend maximum prices for the provision of scheduled route services in Hobart Launceston and Burnie. This Chapter describes the policy context in which the Commission proposes to make its assessment, the studies it has examined and its draft recommendations.

4.1 Context for Assessment of Maximum Prices

In reaching a recommendation of maximum prices for Metro services, the Commission considers that the benchmark should be that cost which would be incurred by an efficient operator undertaking the same services.[29] Given the prospective changes to the legislative[30] framework in which passenger transport services may be provided in Tasmania the appropriate benchmark is that which could reasonably be expected to be delivered from an open tender to provide these services. Hence the benchmark is private sector provision, with private sector employee award provisions, for:

- the current integrated timetable of scheduled route services and dedicated school services;
- the use of existing Metro depots and other facilities; and
- the use of the existing Metro fleet.

Tendering for services on any other basis (such as tendering for regional sets of services, with more than one Hobart region) would deliver different outcomes. The loss of integration may for example lead to higher costs.

The determination of the benchmark is not intended to be a performance target for Metro in the current environment, ie in public sector ownership and where public sector award conditions apply. Rather the benchmark is an indication of what could be achieved if the services were tendered.

In this regard, Metro states in its submission[31] that:

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[29] Mr Geoff Squib submits that taxpayers and Metro users would be better served if Metro was sold or its operations were tendered on a regular basis.

[30] Refer Section 1.7.4 for an overview of the legislative reform and discussion of the implications for passenger transport in Tasmania.

[31] Metro submission section 3.9.2.

> Metro believes that a stated aim of attaining private sector award rates and conditions is not achievable in the current situation. Such an aim requires Metro drivers to accept a reduction in wages of some 16 per cent.

Metro also comments[32] that:

> Metro has strong commitment to industrial relations practices that are participative and feature consultation with negotiated outcomes: it has a healthy relationship with all employee organisations. The results achieved thus far are evidence that such an approach is delivering desirable outcomes. Metro does not intend embarking on a program that will require an aggressive confrontationalist approach in an attempt to achieve wage targets that are unrealistic.

Notwithstanding these considerations, the Commission considers that it should base its recommendations on what is potentially achievable by competitive tendering of services. It recognises that such benchmarks would not be achievable without significant compensation to staff, and may not be achievable in the current environment. However, Metro would be unlikely to be successful in an open tendering of services without substantial changes in employment conditions.

4.2 Exclusion of Charter Costs

Charter work undertaken by Metro is not an activity regulated by the Commission and costs and revenues associated with charters are excluded from the Commission's assessment of maximum allowable revenue.

The submission of the Tasmanian Bus and Coach Association Inc draws attention to the inclusion, in Tables in the Issues Paper, of patronage figures for charters in the aggregate patronage statistics.

The Commission has excluded costs associated with charter work from the allowable Metro cost base for scheduled route services. At this stage, the amount attributable to Charter has been assessed at a high level. A more rigorous assessment will be completed for the Final Report, based on the Commission's allocation of costs to charter and other activities.

A key factor in this allocation will be the assignment of driver time, bus kilometres and bus ownership costs. In principle, charter activity is marginal to Metro's core business and may be attributed only those additional costs which Metro may incur. On this basis, there may be a case for not including a component for the ownership costs of buses. However, depreciation[33] in the value of bus is not only a function of age but also of

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[32] ibid.

[33] Metro calculates annual depreciation charges on a straight line basis, not units of use.

mileage, and a distance-based depreciation factor may be an appropriate allowance for the attribution of bus ownership costs to charter work.

The Commission is aware of concerns expressed by the Association about Metro competing ‘unfairly’ for charter work, and invites comment on this proposed approach.

4.3 Benchmarking Studies

In late 1999 Metro and other Australian urban public transport operators commissioned a comparative study of costs. Participants in the study included Metro (with separate reporting of Hobart, Launceston and Burnie operations), public operators in Brisbane, Canberra, Darwin and Newcastle and six private operators of scheduled route services in mainland States. Information provided in the report is commercial-in-confidence, but this work has been of major assistance to the Commission’s Investigation. At the time of completion of this Draft Report, the *Australian Bus Benchmarking Assessment 1998-99* was still in draft, with some data yet to be verified and the compilation of detailed appendices incomplete. Consequently, the conclusions drawn by the Commission are at this stage preliminary and subject to review when the assessment is verified and complete.

The Assessment is a very detailed analysis of unit costs. The composition of Metro’s aggregate costs is shown in Table 4.1.

Table 4.1: Composition of Metro Costs

	%
Drivers	43.1
Administration and general labour	9.0
Bus running	11.3
Bus repairs and maintenance	9.2
Bus cleaning	1.3
Infrastructure repairs and maintenance	1.3
Non-labour overheads	7.4
Sub-total operating costs	**82.6**
Capital – Buses	14.7
Capital – Land and buildings	1.0
Capital – Traffic facilities	0.5
Capital – Other	1.2
Sub-total Capital	**17.4**
Total	**100**

Source: Metro Tasmania

Metro’s analysis and conclusions of the Assessment are incorporated in its submission.

The highlights[34] of the cost comparison are:

- Metro's 1998-99 unit cost performance is better than that of the other public operators assessed, by a significant margin.

- Since 1992-93 (the first year for which data are available, Metro has made significant progress in reducing its unit costs, with an overall reduction (excluding bus capital charges) of about 15 per cent. The main cost reductions have been in the areas of drivers and bus repairs/maintenance costs. Bus capital charges have also been reduced substantially.

- A substantial unit cost gap still remains between Metro and the better performing private operators. Metro's overall unit costs (excluding bus capital) need to reduce by 19 per cent to achieve the average for the private operator sample surveyed. The major components of the remaining cost gap are (in descending order of size) drivers, bus repairs/maintenance and overheads.

4.4 Commission's Assessment

4.4.1 Benchmark Operating Costs

4.4.1.1 Driver Costs

The data included in the Assessment shows that Metro drivers are amongst the lowest paid in the sample, both in terms of Wage Cost and Total Labour Cost (which includes wages on-cost). Metro labour cost per driver is 78 per cent of the public sector average and 95 per cent of the private sector average. Metro staff costs are typically lower than those of other operators in the assessment for most labour categories.[35] It should be noted that the ordinary rates for drivers under the Metro award are some 16 per cent more than those under the Tasmanian private sector award.

In aggregate terms (Driver Cost per Bus Hour), Metro's costs are 92 per cent of the public sector average and 129 per cent of the private sector average. This indicates that the lower costs Metro incurs are primarily due to lower wages, but the comparative cost benefit is partially offset by driver productivity when compared to the private sector.

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[34] Metro submission, Appendix J3.

[35] This is exemplified by a comparison of average weekly ordinary earnings for Tasmanian full time persons with those for other Australian States and the Australian average. The Tasmanian index being approximately 92 per cent of the Australian average (August 1999). However, care must be taken in using this as a basis of comparison for public transport as the proportional mix of employment categories in the different States varies significantly and this has a material impact on the average weekly earnings. For example, Victoria and NSW are likely to have a higher proportion of corporate/head office employment than Tasmania.

The preliminary conclusion to be drawn from the data in the draft Assessment is that there is a poor match of drivers to buses, that is, a greater proportion of the working time of Metro drivers is not spent ‘behind the wheel’, particularly by comparison with the private sector. Metro considers that its relatively short duration peaks, when combined with constraints inherent in driver conditions, make it more difficult to make greater use of drivers’ time as compared to mainland operators where peaks are longer. It is acknowledged that Metro has made improvements in this area with a greater proportion of casual and part-time employment, but there is apparently much greater gain to be made relative to the private sector.

The Commission has sought comment from Metro on this matter. Metro considers[36] that the risk of inconsistency in reporting of data is higher when attention is focussed on one component. Metro contends that relative performance is best measured by consideration of aggregate costs based on standardised operating conditions.

Standardisation is intended to eliminate the difference between the different mix of inputs between operators (for example a trade-off between costs and productivity). These high level comparisons are shown in Table 4.2 below.

Table 4.2: Average Costs (excluding bus capital costs)

	Metro	Public Operators	Private Operators
Average costs excluding bus capital			
per Bus Hour $	63.64	73.59	52.62
per Bus Km $	2.65	3.07	2.19

Table 4.2 shows that on either measure, Metro’s aggregate average operating costs are 86 per cent of the public sector average and 120 per cent of the private sector average.

Metro has advised the Commission that it has achieved a reduction (in real terms) of 12.8 per cent in Driver costs since 1995-96. The Commission considers that the appropriate benchmark is private sector performance under Tasmanian industrial conditions. The Commission concludes that, in aggregate, the benchmark would be a further 15 per cent reduction in driver costs. Such returns could in principle be achieved by a combination of wages and conditions more reflective of the Tasmanian private sector award and substantial improvements in productivity to better match that of the private sector in other jurisdictions.

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[36] Metro letter, 7 April 2000.

4.4.1.2 Administrative and General Labour

Metro's costs are 90 per cent of the public sector average and 144 per cent of the private sector average. The Commission considers that the benchmark would be 85 per cent of Metro's costs on this item.

4.4.1.3 Bus Running

Fuel typically represents 90 per cent of the costs of this component given that fuel costs vary substantially between states no useful comparison can be made. Metro has advised that Commission that savings of 7.6 per cent (in real terms) have been gained since 1995-96. On this basis, no further adjustment will be applied.

4.4.1.4 Bus Repairs and Maintenance

Metro costs are 80 per cent of the public sector average and 140 per cent of the private sector average. Metro has advised the Commission that unit costs have reduced by 21.3 per cent in real terms since 1995-96. This is a significant gain, nevertheless, the Commission considers that a benchmark factor of 75 per cent should apply.

4.4.1.5 Bus Cleaning

Metro costs are 54 per cent of the public sector average and 158 per cent of the private sector average. However, the private sector figures may reflect greater use of drivers as cleaners. No efficiency factor is applied.

4.4.1.6 Infrastructure Repairs and Maintenance

Metro costs are 63 per cent of the public sector average and 3.7 times the private sector average. This may reflect the extent and responsibility for the maintenance of infrastructure (bus shelters and the like). Given that Metro proposes to increase its facilities, no efficiency factor is applied.

4.4.1.7 Non-Labour Overheads

Metro costs are 75 per cent of the public sector average and comparable with the costs of the private sector. No efficiency factor is applied.

4.4.2 Conclusions in Regard to Operating Costs

The Commission's assessment of these factors is shown in Table 4.3 below.

Table 4.3: Operating Cost Efficiencies

	Metro Operating Cost Proportions %	Factor %	Benchmark
Drivers	52.2	0.85	44
Administration and general labour	10.9	0.85	9
Bus running	13.7	1	14
Bus repairs and maintenance	11.1	0.75	8
Bus cleaning	1.6	1	2
Infrastructure repairs and maintenance	1.6	1	2
Non-labour overheads	9.0	1	9
Total	**100**		**88**

Source: Metro Tasmania

On the basis of these estimates, the Commission has assessed a ‘benchmark’ allowance for operating expenses of 88 per cent of 1998-99 costs, to be adjusted where appropriate for changes in unit costs, such as costs of fuel.

4.4.3 Other Comments Regarding Metro Productivity

Compared to other operators, the productivity of Metro drivers relative to the private sector appears to be a key factor in Metro’s costs. This reflects the amount of driver idle time, which is not only related to such award provisions as sign-on and sign-off time allowances, minimum shift requirements and lay-overs at the ends of runs, but is also a function of the matching of drivers to buses. While Metro may have optimised the dispatch of drivers to meet current bus timetables, there may be greater efficiencies to be had in the revised timetabling of services.

It is also noted that Metro has a very ‘peaky’ service, ie the hours per peak bus are comparatively low. Metro comments that this reflects a lower proportion of evening and week-end services, but it also reflects the narrow period of arrival times of peak commuter and schools services. Bus and driver utilisation could be improved by extending the peak, but this would inconvenience travellers who want bus hours to coincide with work and school hours.

In the 1996 Investigation the Commission commented on the amount of dead running. Data is not yet available to ascertain whether Metro still maintains a high proportion of dead running time, though the setting up of satellite yards should have improved this aspect. A rigorous assessment of running times may show opportunities for improvements in bus utilisation.

4.4.4 Capital Charges

4.4.4.1 Buses

The Metro fleet is comparatively young compared to the private and public sector fleets surveyed in the Assessment. Metro proposes bus disposals and acquisitions to bring the average age of its fleet to 9.8 years in December 2001. The Commission has adopted this target average fleet age of 9.8 years, which is broadly consistent with other public and private sector operators.

The decline in passenger numbers, including the decline in peak passenger travel, would suggest that Metro should examine the total configuration of its bus fleet. Smaller passenger numbers would indicate that the use of smaller buses eg midi-buses (combined with revised timetabling) might be more appropriate in the market environment expected over the pricing period. The patronage decline may not yet be at such a stage that a major change in fleet mix could be justified. Smaller buses may mean passengers standing, reducing the appeal of the public bus service. The Commission has not examined this issue in detail and has not therefore optimised the bus fleet to take account of the decline in patronage.

The Commission also notes that the Metro spare:peak bus ratio is rather higher than that of most other operators (Metro 13.5 per cent;[37] average public 9.0 per cent, and average private 9.3 per cent). This is partly a reflection of the relatively small size of Metro fleets in Burnie and Launceston. The financial advantage of disposal of a small number of older buses to reduce the ratio is not material.

4.4.4.2 Land and Buildings

Metro's capital charges for land and buildings are broadly consistent with those of other public operators but are substantially higher than those of the private operators surveyed in the Assessment. The Commission has excluded the Mornington depot (which is not used by Metro and is leased out) from the 'regulated' asset base. It is also possible that the centrally located depots at Springfield and Launceston are more elaborate, or located on higher value real estate, than a private operator would choose for a greenfields operation. However, these are established facilities suited to Metro needs. The Commission has not examined whether there would be more cost-effective alternatives and cannot justify any notional reduction of asset value.

[37] December 1998 data. Current ratio is 11.2 per cent.

4.4.4.3 Allowance for Profit

A private operator undertaking Metro services on contract would require a commercial return on capital employed in the business.[38]

The Commission has sought to establish a benchmark rate of return for urban public transport. However, as noted in the Issues Paper, there are no current benchmarks available in relation to urban passenger services provided by the public sector elsewhere in Australia. Further, the Independent Pricing and Regulatory Tribunal of NSW (IPART) neither attempted to calculate or set a rate of return for the State Transit Authority, stating it would only consider allowing a rate of return for the STA when cost savings are further advanced.

Similarly, the Independent Pricing and Regulatory Commission (IPARC) in the Australian Capital Territory did not specifically calculate or assess an appropriate rate of return for ACTION. However it did note that little evidence had been furnished to 'suggest ACTION has applied a rigorous assessment of new investments in terms of prescribed rate of return criteria'.

As IPART notes, estimating the rate of return is difficult in the public transport sector where there is little or no competition and the revenue risks are ameliorated to a large extent where, in many cases, over half of the entity's revenue is derived from Government sources.

The appropriate rate of return depends on the risks that Metro faces. This in turn depends on the nature of any contract with Government and the matter of which party bears the patronage risk. Assuming that there is no prospect of competition for route services once a contract is established (at least for the duration of the contract which may notionally be for 10 years), the business risk apart from patronage risk is relatively low.

In the current period of changes in the nature of employment, the accessibility of private vehicles, and an underlying trend away from public transport, this risk is difficult to quantify. The Commission is required to make a recommendation of maximum prices for a three-year period, and the risk over this period is lower than that over a 10 year period. However, if the benchmark for operating costs is to be a private sector benchmark, the benchmark for the allowable rate of return should be commensurate with the risks that a private operator may take over a 10 year contract.

Taking these factors into account, the Commission proposes an allowable pre-tax return on assets (expressed in real terms) of 8.5 per cent. This is a weighted average rate of

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[38] The submission of the Department of Infrastructure, Energy and Resources agrees that it is appropriate to include a return on equity in benchmark assessments. There is a view that Metro should be providing a community service and should not therefore be required to earn a profit. But it is necessary to conceptually separate the role of Government as owner from its role as the purchaser of a community service. If this distinction is not made, the fact that the community has capital tied up in Metro-capital that should be earning a return, is obscured.

return which takes account of a commercial debt:equity ratio and commercial costs of debt. The rate is somewhat higher than the rates of return which have recently been determined by regulators of gas and electricity monopoly service providers, and reflects the higher business risks faced by an operator of urban bus services.

A rate of return of 8.5 per cent real pre-tax represents approximately $2.1 million in annual charges. This is equivalent to approximately 30 per cent of Metro fare-box revenues. Given trends in reduction of patronage, an operator prepared to undertake a 10 year contract with full exposure to fare-box revenue risk may seek that risk to be shared.[39]

4.5 Draft Recommendation of Maximum Revenues

The Commission proposes to recommend maximum revenues which may be earned by Metro from fare-box and Government contribution to be $26.4 million per annum, expressed in 1999-2000 terms, exclusive of the impact of the New Tax Package. This amount should be indexed to reflect changes in underlying costs.

This allowance is comprised of:

	$m
Operating Costs	21.4
Depreciation	2.9
Return on Capital	2.1
Total	$26.4

The assignment of risk between Government and Metro will be determined in the service contract and the level of fares will be determined by Government. The estimate of the fares revenue which may be received by Metro, and which may be deducted from the Commission's recommended allowance to determine the quantum of the Government contribution, should take account of the underlying trends in patronage and prospective response to any changes in fares.

4.5.1 Indexation

There are two issues in relation to the indexation of revenues and fares. Firstly, the Commission was asked to consider whether the CPI was the appropriate index or whether some other index would more appropriately reflect the underlying cost structures of Metro. The second issue is, if the CPI is to be used, are there any implications arising from the use of the CPI in the year following the implementation of the GST.

[39] The submission of Launceston City Council suggests that a contract should include an incentive to maximise usage. The Commission is in full agreement with this approach, but the contract should also recognise underlying patronage trends to ensure an equitable treatment of patronage risk over the contract period.

Under the 1997 Order, Metro's fare increase is indexed to CPI.[40] Metro submitted that the CPI basis was unsatisfactory and the index utilised by the private bus industry better reflects actual circumstances affecting bus operations, hence, should be used for future fares adjustments.[41]

The Commission has examined the components of the index and the elements of Metro's costs. The index is a poor reflection of Metro's costs, and while the Commission recommends the use of an index, neither the Commission nor the Department of Infrastructure, Energy and Resources considers that the School Bus Index is appropriate.

The inclusion or exclusion of a 'return on capital' element in assessing 'maximum prices' would have a material impact on the weighting of various factors that may be included in an index. Further, the magnitude of individual cost items will change with the introduction of GST and more analysis is required. The Commission will recommend an index that better reflects Metro's total costs when it has considered submissions in response to this Draft Report and reached a recommendation on maximum prices.

If the CPI is used as an escalator, the ACCC Guidelines[42] clearly state that CPI escalators should not be used to provide an increase in the net dollar margin or increase prices above the price rule. The ACCC sees this as particularly relevant to Government owned and regulated monopolies. In this regard the Guidelines state:

> **Regulators and CPI escalators**
>
> 1.45 Where regulated enterprises are subject to both CPI-related price or revenue caps and tax pass-through arrangements, there is the potential for over-recovery of costs associated with the NTS changes. Over-recovery may arise when an enterprise:
>
> - recovers its GST liability (net of any input cost reductions); and
> - also increases its prices for CPI adjustments, which may include the effect of the GST.
>
> 1.46 This over-recovery may be a contravention of the prohibition on price exploitation.

In this regard, it should be noted that the Determination made by the Electricity Regulator in regard to the Tasmanian Electricity Supply Industry pricing policies for tariff customers permitted the pass through of the net impact of GST. However, the Regulator also specified that the CPI escalator applied in 2002 and based on the CPI for the period July 2000 to July 2001 must be net of the GST impacts.

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[40] See discussion on this issue in Chapter 5.

[41] Metro submission, p33.

[42] ACCC *Price Exploitation Guidelines* March 2000.

Consistent with this, the Commission proposes to ensure that any indexation of prices does not result in any over recovery of costs associated with the New Tax System.

Chapter 5 - Factors in the Setting of Fares

5.1 Commission's Role in Setting of Fares

The Commission is required to recommend maximum prices for the current provision of scheduled route services by Metro in the metropolitan areas of Hobart, Launceston and Burnie. This is interpreted as requiring a recommendation of the maximum total revenues which Metro may earn for these services. Metro revenues are made up of fare-box receipts plus the contract revenue from Government.

Since the Government contribution accounts for nearly 67 per cent of Metro revenues, Government policies for the provision of public transport, social policy including concessions for eligible recipients and education access dictate the level of fares..

In the 1996 Investigation, the Commission examined factors relevant to the setting of fares and presented options which would, in the Commission's view at that time, have delivered a better alignment of fares and costs. The Commission also provided estimates of the expected impact on Metro fare-box revenue and on the quantum of Government contribution if the Commission's presentation had been accepted.

In broad terms, the Commission proposed an increase in the general level of fares, with a higher proportional increase for longer distance fares. The Order made by Government, taking account of the Commission's recommendations in regard to maximum total revenues, preserved Metro fares at the levels set in August 1996, with provision for escalation of fares by the Hobart CPI. The Order also required Metro fares to be rounded to the nearest 10 cents, and the change in the Hobart CPI has been such that there has been no change in fares since 1996.

This Chapter of the Draft Report reflects the Commission's observations on Metro fares. However, it must be stressed that the Commission does not consider that it is required to make a recommendation on fares. Rather, information (including the impact of the GST) is provided for the Government to consider in setting appropriate fares.

Matters which the Commission considers relevant include:

- the comparison of costs and revenues for particular groups of Metro services, by location and by time period;
- the relationship between fares and costs for route length;
- the comparison of Metro fares and those charged by private operators in Tasmania;

- the comparison of Metro fares and inter-state fares;
- the economic benefits of public transport which may justify, in economic terms, the contribution by Government to Metro's operations; and
- social factors.

These factors are pertinent to considering an appropriate adult fare. Other factors relevant to considering the level of fares for students and concession travellers include:

- comparison with fares paid by student travellers on Tasmanian private bus operations;
- comparison with subsidies paid by Government for student travel on private bus operations; and
- comparison of Tasmanian and interstate concessions policy.

5.2 GST Implications

The Terms of Reference for this Investigation require the Commission to consider the implications for Metro's pricing policies of the Commonwealth's GST and other elements of the New Tax System.

As discussed in Chapter 1, Metro is subject to the GST and, under the *New Tax System Price Exploitation Code (Tasmania) Act 1999*, the *Price Exploitation Guidelines*[43] issued by the Australian Competition and Consumer Commission. The revised Guidelines directly addresses the issue of Regulated Prices:

> **Regulated prices**
>
> 1.42 Prices in a number of industries are subject to direct regulation. For example, the ACCC and State and Territory general regulators have oversight of elements of the following services: telecommunications (Telstra), postal services (Australia Post) prices, airport aeronautical charges, electricity, gas transmission prices, water, public transport and some other prices.
>
> 1.43 The ACCC has worked closely with regulators to ensure compliance with the legislation. In this context, regulators have been requested to:
>
> - apply the guidelines in their own determinations; and
> - inform and consult with the ACCC on the application of the guidelines.

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[43] *Price Exploitation and the New Tax System, General Principles, Information and Guidelines on When Prices Contravene Section 75AU of the Trade Practices Act 1974,* Australian Competition and Consumer Commission July 1999, revised March 2000.

1.44 In turn, the ACCC has agreed to consult with regulators on the application of the guidelines.

Under these Guidelines Metro is only able to increase its prices by the net impact of the GST under the New Tax System. That is, any change in price must take into account the removal of other taxes under the New Tax System such as wholesale sales tax (or wholesale sales tax equivalent (WSTE)) and the fuel duty rebate. Metro is currently subject to the WSTE regime under its enabling legislation. WSTE is payable on a range of inputs. However, it should be noted that passenger buses are exempt under Item 63 of the *Sales Tax (Exemptions and Classifications) Act 1962* and that this exemption has been extended to Metro under the State's WSTE regime.

GST is a 'pass-through' item for businesses in that it is required to pay GST on its inputs and charge GST on its outputs. However, the amount remitted to the Australian Tax Office (ATO) is the net amount (GST collected minus GST paid). This differs from the current sales tax regime whereby the cost is borne by the business.

Metro's modelling[44] indicates that the net impact of the New Tax System on its prices will be approximately 4.7 per cent. However, as discussed in section 5.4.4 above, any price increase is likely to result in a decrease in patronage. Metro also believes the decrease in patronage will be influenced by other aspects of the New Tax System, specifically the increase in net disposable incomes (arising from changes in benefit payments and decreases in personal taxes) and reductions in the price of motor vehicles.

A key issue in considering the impact of GST on fares was whether the Price Exploitation Guidelines would limit the increase in an individual fare to the estimated 4.7 per cent. The revised Guidelines issued in March 2000 provided some clarity on this matter.

5.2.1 Regulatory Tests

The Regulatory Tests for establishing whether there has been price exploitation are also included in the Guidelines. In this regard the ACCC will have regard to both the size and the timing of the price changes. The key determinants in relation to the size of the price changes are:

- the net dollar margin rule – that is businesses should not increase the net dollar margins on their goods and services as a result of the New Tax System changes alone;
- there is to be no mark-up on the GST component of the price; and
- no price should rise by more than 10 per cent as a result of the New Tax System.

Factors relevant to the size of the price adjustments, amongst other things, include:

[44] Metro submission, p21.

- cost savings in overheads as well as direct purchases;
- rebates and settlements and discounts offered by suppliers;
- compliance costs;
- averaging the impact of taxes and costs across goods and services;
- rounding of total cash payments; and
- prices set with reference to CPI escalators.

The last three factors are of particular relevance to Metro.

5.2.2 Averaging the Impact of Taxes and Costs

The Guidelines state that as a starting point margin movements should be assessed for individual goods or services. However, the Guidelines also recognise that there may be circumstances where it is appropriate to apply the dollar margin rule across closely related goods or services. In this regard, Metro's fares may be regarded as closely related services. The use of averaging will only be considered appropriate if it can be demonstrated that:

- averaging is consistent with existing business practice;
- averaging does not take advantage of market power and is not detrimental to competition;
- there is no averaging between GST –free and GST items;
- the net dollar margin as a whole is adhered to; and
- the price change of an individual good or service is consistent with the price rule (does not rise by more than 10 per cent).

The Guidelines also permit averaging across closely related goods or services to a price at preferred price points (eg $1.99, $2.99 etc). In addition, where there are fixed denominational machines (eg vending machines, parking meters) the Guidelines suggest that it may be appropriate to delay adjusting prices. However, any subsequent adjustments must be consistent with the price rule and the net dollar margin rule and applied over a reasonable period not exceeding two years.

5.2.3 Rounding of Total Cash Payment

The existing guidelines on cash rounding to one and two cent coins are not altered by the provisions relating to price averaging across lines of goods or services, including to price points and averaging over time by the GST Guidelines. That is, payment rounding to the nearest five cents applies to the total cash bill not to the individual prices, credit card or EFTPOS transactions.

5.2.4 Prices Set by CPI Escalators

As discussed in Chapter 4, the ACCC Guidelines state that if the CPI is used as an escalator then this should not be used to provide an increase in net dollar margins or otherwise increase prices above the dollar rule. To the extent that the CPI is incorporated in the index used to adjust Metro fares the index will be adjusted to ensure that Metro is not in breach of this requirement.

5.3 Relationship between Costs and Revenues

5.3.1 Cost Allocation Assumptions

The Commission has examined the relationship of costs and revenues for Hobart, Launceston and Burnie for services provided in peak, interpeak, evening and weekend/public holiday periods. Costs have been attributed to services in accordance with the principles shown in Table 5.1 below:

Table 5.1: Cost Allocation Assumptions

Cost Category	Peak	Inter-Peak	Evening	Weekend/ Public Holiday
Driver hours [1]	Driver Hours	Driver Hours	Driver Hours	Driver Hours
Bus-time related	Bus Hours	Bus Hours	Bus Hours	Bus Hours
Bus-km related	Bus Km	Bus Km	Bus Km	Bus Km
Bus capital	Peak Buses	—	—	—
Other capital	Bus Hours	Bus Hours	Bus Hours	Bus Hours
Overheads	Bus Hours	Bus Hours	Bus Hours	Bus Hours

(1) Driver Hours are scaled to reflect penalty loadings payable to drivers for spread-shift, overtime and weekend/public holiday penalty rates.

It may be argued that the costs of ‘Other Capital’ and ‘Overheads’ should be fully allocated to peak services. If so, the estimates shown in Table 5.1 would tend to over-state the avoidable costs of operating evening and weekend/public holiday services. However, the quantum of ‘Other capital’ and ‘Overheads’ is not so significant as to grossly impact on the indicative outcome.

5.3.2 Revenue Allocation Assumptions

Metro provided data for the 1996 Investigation including patronage statistics and estimates of travel by time period for each of the service categories. This data was used as the basis for the revenue estimates that underlie the cost recovery estimates shown in Table 5.2, scaled to reflect the 1998-99 ticket boarding data presented in Table C1 of the Metro submission.

5.3.3 Cost Recovery Ratios

Table 5.2 shows estimated cost recovery ratios for each sector.

Table 5.2: Cost Recovery Proportions

	Peak %	Inter-Peak %	Evening %	Weekend/ Public Holiday %
Hobart Timetabled	29	24	15	23
Hobart Dedicated School	32			
Launceston Timetable	24	29	46	24
Launceston Dedicated School	38			
Burnie Timetabled	18	24		
Burnie Dedicated School	39			

Based on the scaled boarding data, the Commission has estimated the average deficit per boarding for each of the service categories, shown in Table 5.3 below.

Table 5.3:Government Contribution per Boarding

	Peak $	Inter-Peak $	Evening $	Weekend/ Public Holiday $
Hobart Timetabled	2.00	2.50	4.60	2.40
Hobart Dedicated School	1.20			
Launceston Timetable	2.70	2.10	1.00	2.60
Launceston Dedicated School	0.90			
Burnie Timetabled	3.60	3.00		
Burnie Dedicated School	0.60			

It should be stressed that these results should be considered as indicative, as there are a variety of reasonable approaches to the allocation of costs and a degree of estimation in the allocation of boarding data to service categories, particularly across time periods.

Nevertheless, some conclusions can be reasonably drawn from the order of magnitude of these estimates. It is apparent that the lowest recovery per boarding arises from Hobart evening services, with a deficit of approximately $4.60 per boarding. While this estimate does not properly represent the costs which Metro or Government would avoid if these services are curtailed, it does suggest that Metro should be examining whether the conventional timetabled bus is the most cost-effective means of delivering evening services. Sub-contracting of these services to other providers may deliver cost savings without loss of service.

5.4 Adult Fares

5.4.1 Relationship of Costs and Fares with Route Length

The 1997 Final Report of the Metro Fares Investigation included a commentary and analysis of the relationship of adult fares and costs. An extract from the Final Report is reproduced below:

> Costs will vary with distance travelled because some costs vary:
>
> - directly with kilometres travelled, eg fuel; and
> - indirectly with kilometres travelled because of costs that vary with hours of operation.
>
> Costs will not vary directly with distance because they vary with the number of buses in service rather than their use. This means there will be a negative relationship between cost per kilometre and kilometres of service. In other words, fares per kilometre (if they reflected costs) would fall with trip distance. The relationship between current fares and route distance is illustrated in Table 8.2 and Figure 8.2.
>
> **Table 8.2: Metro Fares by Distance**
>
> | Fare $ | Sections | Route Distance Km |
> |---|---|---|
> | 1.20 | 1 - 2 | Up to 13 |
> | 1.60 | 3 - 4 | 4 to 12 |
> | 1.90 | 5 - 7 | 7 to 17 |
> | 2.10 | 8 - 10 | 11 to 41 |
> | 2.80 | 11 - 15 | Up to 50 |
>
> The interpretation of the fare schedule in terms of distance travelled is complicated by the fact that sections are not a uniform length. Originally, sections were 1.6 kilometres (1 mile). As the Metro system expanded this relationship was lost. The maximum number of sections is 15, but there are some very long routes, eg Hobart CBD to Opossum Bay is about 50 kilometres, Burnie to Wynyard and Ulverstone are about 22 and 33 kilometres respectively. On these routes the kilometres per section range up to 3.3.

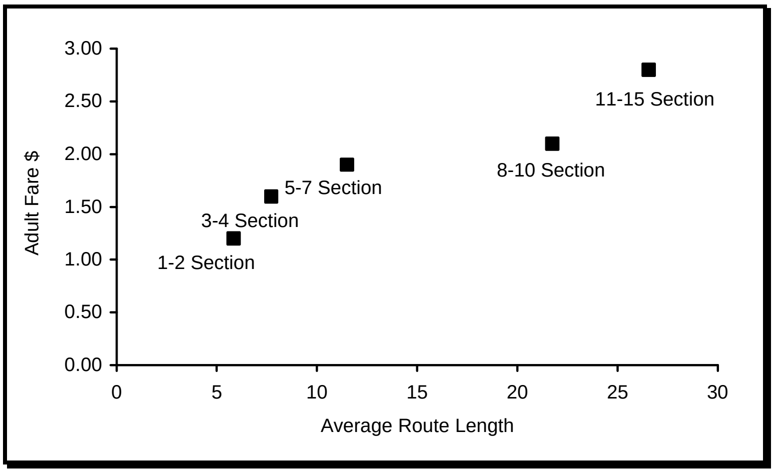

Figure 8.2: Adult Fare and Average Route Length

The key question is whether the existing section fare structure reflects the cost of providing service in terms of distance travelled, ie do fare per kilometre and cost per kilometre decrease with distance at approximately the same rate.

The Commission examined this question by analysing data from selected routes on the overall costs of operation and usage by route length. The analysis of these data showed that:

(i) the costs per kilometre generally decrease with route length. The cost may be about 30 per cent lower for the longest route compared to the shortest route;

(ii) the boardings per kilometre generally decrease with route length. They may be about 50 per cent lower for the longest route compared to the shortest route; and

(iii) the costs per passenger generally increase with route length, reflecting the relationships in (i) and (ii). The cost per passenger for the longest route may be up to two times higher than that for the shortest route.

The fare per kilometre was then compared with the cost per kilometre (both expressed as indexes) to determine whether existing fares reflect the pattern of costs with distance. The relativity of fare and cost is illustrated in Figure 8.3. The fare for the longest routes should be three to four times that for the short routes if fares are to reflect the pattern of costs with distance.

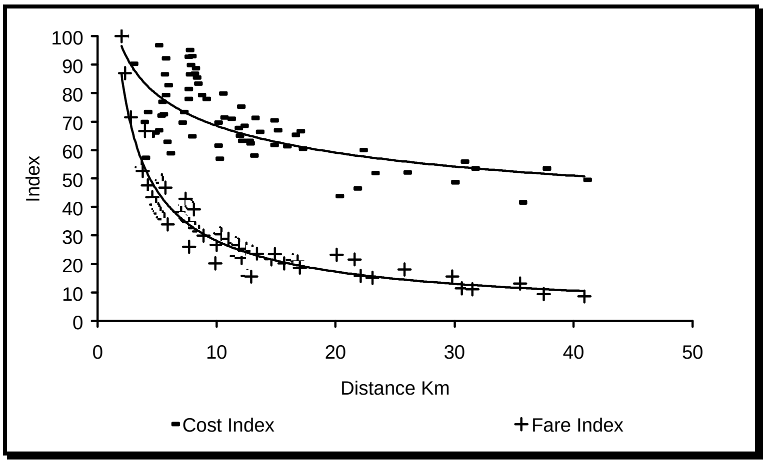

Figure 8.3: Comparison of Cost per Km and Fare per Km

There have been no significant changes in costs or fares since the last investigation and the conclusions are still valid.

5.4.2 Comparison with Tasmanian Private Operator and Interstate Fares

5.4.2.1 Tasmanian Private Operator Fares

The Commission has undertaken a comparison of private operator and Metro fares on a sample of routes of comparable distance in the three regions. The results of the survey are presented in Table 6.2. Given that Metro has sole operation of most urban routes in Hobart, Launceston and Burnie, private operators tend to run services over longer distances in the form of rural or inter-regional services. For this reason, the comparison has been made over distances of four or more Metro sections.

Table 5.4: Comparison of Private Operator and Metro Fares over Equivalent Routes

Operator	Service	Distance km	Single Adult Fare $	Private Operator Fare Differential %
Metro	Hobart to South Arm	37	2.80	
Private Operator	Grindelwald to Launceston	31	3.80	36
Metro	Hobart to Brighton	26	2.80	
Private Operator	Hobart to Pontville	27	3.80	36
Metro	Burnie to Ulverstone	27	2.80	
Private Operator	Burnie to Ulverstone	27	4.40	57
Metro	Hobart to Cremorne	24	2.80	
Private Operator	Hobart to Midway Point	22	3.30	18
Metro	Hobart to Rokeby	14	2.10	
Private Operator	Legana to Launceston	16	2.80	33
Metro	Hobart to Clarendon Vale	14	2.10	
Private Operator	Hobart to Kingston	14	2.70	29
Metro	North Riverside to Launceston	8	1.90	
Private Operator	Cormiston Creek to Launceston City	8	1.70	-10.5
Metro	Waverley to City	6	1.60	
Private Operator	Ravenswood to City	6	1.80	13

Comparisons have been made over eight routes ranging from six kilometres (four Metro sections) to 35 kilometres (15 sections). In seven of the eight examples, it was found that the private operator fare level ranged from 13 per cent to 57 per cent higher than the Metro fare over an equivalent distance. In only one instance was the Metro fare higher. In particular, for routes over 25 kilometres, two private operator fares were almost 40 per cent higher and one was 57 per cent higher.

The gap between Metro fare and private operator fare has widened since the 1996 Investigation. The 1996 Investigation found that private operator fare levels ranged from six per cent to 36 per cent higher than the Metro fare over an equivalent distance.

These findings tend to support the view that, particularly for longer routes, Metro fares are set below the level that would apply in a private operation.

In the 1996 Investigation, the Commission recommended that Metro’s fares should reflect distances travelled. In particular, the Commission recommended that:

- the fare for 11-15 sections of travel should be 2 1/2 to 3 times that for 1-2 sections, with appropriate intermediate gradations of fares for other section groupings;

- section boundaries should be adjusted to obtain a better relationship between the number of sections and distance travelled; and

- fare adjustments should be small and regular (ie annual).

Metro submits that the existing section-base fare structure should be retained in addition to adopting the Commission's earlier recommendations as discussed above.[45]

Metro's fares have remained constant since 1997, whilst private operators have overall increased their fares. Metro notes that as a result, the difference between private operator and Metro fares have widened. Metro is of the view that:[46]

> These fare differences have now assumed greater importance, given the Government's policy of moving towards equal treatment of Metro and private operators.

5.4.2.2 Interstate Fare Comparisons

The Metro submission includes a comparison of Adult Bus Fares from a January 2000 survey, reproduced in Table 5.5 below.

Table 5.5: Adult Bus Fare Comparisons – January 2000[(1)(2)]

Distance	Syd	Bris	Canb	Melb	Tas	Adel	Perth	Dar
Single Cash Tickets								
2 kms	$1.30	$1.40	$2.00	$2.30	$1.20	$1.50	$1.00	$1.20
5 kms	$2.30	$2.20	$2.00	$2.30	$1.60	$2.80	$1.70	$1.20
10 kms	$2.90	$2.80	$2.00	$2.30	$1.90	$2.80	$2.50	$1.60
25 kms	$4.00	$3.20	$4.00	$5.30	$2.80	$2.80	$4.00	$2.10
Multi-ride (10trip) Tickets								
2 kms	$9.50	$11.20	$17.00	$19.50	$9.60	$10.20	$8.50	$9.60
5 kms	$16.00	$17.60	$17.00	$19.50	$12.80	$19.00	$14.45	$9.60
10 kms	$20.00	$22.40	$17.00	$19.50	$15.20	$19.00	$21.25	$12.80
25 kms	$34.00	$25.60	$34.00	$47.30	$21.60	$19.00	$34.00	$16.80

Source: Prepared by Booz Allen & Hamilton

(1) Some of the fare systems are section-based, allowing only one vehicle boarding on a cash ticket; other systems are zonal, allowing multiple boardings within a time limit (generally 2 hours).

(2) Melbourne, Adelaide and Perth fares levels are for all public transport modes.

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[45] Metro submission, pp31 and 33.

[46] Metro submission, p28.

This comparison shows that:

For single cash tickets across all distances, Metro fares are amongst the lowest, with only Darwin having lower fares for distances greater than five kilometres.

For Multi-Ride (10 trip) tickets across all distances, Tasmanian multi-ride fares range amongst the lowest, with only Darwin (and Adelaide for longer trips) being lower for distances greater than five kilometres.

The Metro submission also comments that a comparison of fares alone does not present the complete picture, as different conditions, ticket types and travel patterns apply between systems. Table 5.6 below shows average fare per boarding — a measure which attempts to normalise these factors. However, the data presented in Table 5.6 is indicative of all passenger boardings and is therefore subject to the effect of differing proportions of full fare-paying and concession travellers.

Table 5.6: Australian Public Transport Average Fare per Boarding – Metro/BAH Estimates

City	Operator	Mode	Average Fare per Boarding - $						
			92/93	93-94	94-95	95-96	96-97	97-98	98-99
Newcastle	State Transit	Bus/Ferry	0.50	0.50	0.49	0.48	0.49	0.50	0.49
Brisbane	Brisbane Transport	Bus	1.05	1.08	1.16	1.16	1.34	1.31	1.26
Adelaide	TransAdel & other	All	0.67	0.66	0.67	0.70	0.76	0.77	0.83
Perth	Transperth	All	0.58	0.64	0.72	0.72	0.75	0.81	0.85
Canberra	ACTION	Bus	0.68	0.72	0.76	0.85	0.99	0.97	1.01
Darwin	Darwin Bus	Bus		0.76	0.83	0.83	0.86	0.89	1.05
Hobart	Metro	Bus	0.69	0.68	0.66	0.70	0.77	0.81	0.77
Launceston	Metro	Bus	0.71	0.67	0.66	0.67	0.78	0.78	0.76
Burnie	Metro	Bus	0.58	0.54	0.57	0.62	0.66	0.67	0.67
Total	Metro	Bus	0.69	0.67	0.66	0.69	0.76	0.80	0.77

Average fare per boarding, shown in Table 5.6, indicates that Metro fares are on average the lowest of all Australian capital cities.

5.4.3 Economic Factors

The provision of subsidies for public transport is warranted, on economic grounds, if there is an implicit subsidy for other means of transport or if there are additional benefits (or avoidable costs) for the community by providing mass transit systems rather than private motor cars.

The Final Report of the 1996 Investigation addressed the question of whether road users paid their way, and also referred to investigations of the costs of externalities associated

with road use. The Report noted that total costs of road use were estimated by the Interstate Commission[47] in 1990 to be $6.9 billion per annum, of which $2 billion was attributed to congestion.

Support for public transport alone is unlikely to reduce car use to such an extent that urban form or the incidence of car use changes in Tasmanian cities to any material extent. Further, while congestion is clearly an issue (and one which may warrant a subsidy for public transport) in the larger cities, congestion is much less of an issue in Tasmanian cities.

Nevertheless, as a matter of public policy, some measure of subsidy for Metro travellers is appropriate on grounds of providing access for the ‘transport disadvantaged’ and improved public amenity (by the avoidance of large areas of dedicated car parking). Whether a subsidy of the same scale as that paid in other States is justified on economic grounds is another matter.

Tables C5 and C6 included in the Metro submission indicate the cost recovery ratios for public transport operators in other Australian states. Some care must be exercised in interpreting those figures, as they represent the shortfall between costs of provision of service and fare-box revenue. Consequently they represent Government contributions of concession and student travel, in addition to a general fare top-up.

The Metro submission notes that:

> In regard to **cost recovery** (essentially the ratio of non-Government revenues to total operating costs), Metro was 'mid-range' in 1998/99:
>
> - Metro's overall cost recovery was about 30%, with the figure for Hobart being 31%, Launceston 30% and Burnie 27%.
> - Two operators examined (Sydney Buses, Brisbane Transport) had cost recovery ratios of around 50%.
> - Most other operators had cost recovery rates in the range 22-30%, including Newcastle (22%), Canberra (23%), Adelaide (23-30%, depending on definition) and Perth (29%).

It is notable that the larger cities (Sydney and Brisbane) where the externalities associated with car use could be expected to be higher,[48] show higher cost recoveries. Yet it is these cities where the value of congestion and car parking is likely to be more important. The higher cost recovery in these centres reflects greater utilisation of public transport and higher fares.

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[47] Ref 12 in Metro Final Report 1997, p70.

[48] Melbourne was not reported.

5.4.4 Patronage Response to Changes in Fares

The Metro submission[49] includes a summary of estimates of price elasticities from various studies. In general, these studies suggest that the fare elasticity for urban bus services in the short run is in the order of (minus) 0.3, ie relatively inelastic. (A price elasticity of (–)0.3 implies a 10 per cent increase in fares will result in a 3 per cent reduction in patronage.)

International studies suggest that:

❖ Long run elasticities (about 4 + years) are about twice short-run (3 to 6 month) elasticities.

❖ Peak period elasticities are about half off-peak elasticities. Elasticities tend to be higher than average for short trips (say up to 2-3 km, where walking and cycling are strong alternatives) and for longer (15+km) trips.

❖ There is some evidence that elasticities are higher in small cities, though this is not conclusive.

Metro's consultants concluded that:

- Overall fare elasticities for the three centres would be expected to be about 0.3 to 0.4 in the short run (ie within 3-6 months), increasing to around 0.5 in the medium run.
- Peak period elasticities would be around two-thirds of these averages, off-peak elasticities up to 50% higher than these averages.
- Elasticities for adult concession groups would be up to 50% higher than these averages, with elasticities for other groups being lower than the averages.
- Elasticities will be higher than the averages for shorter-distance trips (up to 2-3 kms), lower for medium/longer trips.

However, ACTION's estimates[50] of its fare elasticities vary substantially from the above estimates and are in the range from zero for a quarterly concession ticket to a maximum of (-)0.25 with many fares having estimated elasticities of (-)0.15 and (-)0.10. IPARC noted that although ACTION's elasticities are consistently low, a recent survey supported this as ACTION's failure to attract more patronage was largely independent of fare levels.

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[49] Metro submission p31.

[50] Independent Pricing and Regulatory Commission, *ACTION'S Bus Fares for 1999/2000, Final Price Direction*, April 1999, p13.

Metro estimates that, for example, a 10 per cent across-the board (real) fare increase would result in:[51]

- ❖ a loss in patronage (in medium term) in the order of 5 per cent, but relatively higher for adult concession passenger, lower for full adult passengers; and
- ❖ a consequent increase in fare revenue of around 5 per cent (about $350 000 - $400 000 pa).

Metro adult patronage declined by 10 to 12 per cent in the two years after the July 1996 increases in fares. Compared to the long-term trend of about 6 per cent per annum, this suggests an elasticity broadly consistent with the (-)0.3 to (-)0.5 range quoted from the international studies. However, it is not possible to accurately isolate the impact of changes in fares from other factors.

It is difficult to anticipate how Metro patrons may respond to price changes from 1 July 2000. The introduction of the new tax package will see a general increase in prices for most goods and services, and is accompanied by reductions in personal income tax. The New Tax Package may also, in the longer term, reduce the relative cost of purchase of a private motor car, but a sustained period of petrol prices at current levels will discourage private motor vehicle usage for longer trips.

5.4.5 Social Impact of Fare Increase

As discussed in Chapter 3, the majority of Metro's passengers are from low income or welfare recipient households. Metro submits that any significant increases could severely affect those people and may consequently restrict their mobility altogether. Further, Metro observes that:[52]

> In such circumstances demand for services will decline and pressure to reduce or remove poorly utilised services will increase, which if successful will result in deterioration of services and in further patronage losses.

Metro submits that the Commission takes into consideration the social impacts of any fare increases in developing its recommendations.

This is supported in the submissions of the Waratah-Wynyard Council and the Launceston City Council. The Launceston City Council also submits that there is a strong argument for the 'social obligation' to provide affordable public transport, and that there should be a balance, taking account of social and environmental considerations in any findings on Metro fare policies.

The Department of Health and Human Services also suggests that any fare increase based on distance travelled would cause undue hardship and seriously restrict the ability of

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[51] Metro submission, p31.

[52] Metro submission, p34.

residents of housing estates in outlying suburbs to access essential services. Special needs groups are dependent on the public transport system.

5.4.6 Conclusions in Regard to Adult Fares

Taking account of the comparison of interstate and Tasmanian private operator fares, the Commission considers that there is a case for a general increase in fares. For single cash tickets across all distances, Metro fares are amongst the lowest, with only Darwin having lower fares for distances greater than five kilometres. Further, there is a case for a relatively higher increase in fares for longer distances.

Appendix E shows that 63 per cent of revenue ($1.2 million) from full fares (single and multi-trip) is earned from 1-2 and 3-4 section tickets, and 95 per cent ($1.7 million) from tickets up to and including 7 sections. Hence the revenue effect of increases from longer distance fares is relatively modest.

Section 5.4.4 above suggests that the impact on patronage (as estimated by the elasticity) of increases in peak fares is likely to be less than the impact for changes in off-peak fares. There may be a case then to maintain off-peak fares (such as the Day Tripper and Day Rover) at current levels, or to increase these fares in line with a general increase but remove the restrictions on afternoon peak travel. This latter option has been proposed by Metro.

The Metro submission also describes the alarming reduction in use of Metro services, which has averaged 6.4 per cent per annum for full fare passengers over the past 13 years. This reduction has occurred in a period of relatively stable Metro prices and services.

As discussed in Chapter 3, preliminary estimates suggest an increase in Metro costs of approximately 4.7 per cent as a result of the implementation of the New Tax Package. Further, the 1997 Order that set Metro fares intended to provide for indexation of fares to reflect changes in the Hobart CPI. However, restrictions on the rounding of fares prevented this adjustment. The cumulative change in the CPI over the period December 1996 to December 1999 is 2.2 per cent. An average increase of about 7 per cent in Adult fares would therefore be necessary to maintain the real value of fares to Metro.

The range of fares shown in Table 5.7 are those which the Commission considers reasonable over the three years from 1 July 2000. These suggestions must be considered in the context of the patronage initiatives described in section 2.4.

Table 5.7: Adult Fares

Ticket Type	Current Fare $	Suggested Fare $	Percentage Change %
Adult (Full)			
1 - 2 sections	1.20	1.30 – 1.40	8.3 – 16.7
3 – 4 sections	1.60	1.80 – 1.90	12.5 – 18.8
5 – 7 sections	1.90	2.10 – 2.20	10.5 – 15.8
8 – 10 sections	2.10	2.40 – 2.50	14.3 - 19.0
11 – 15 sections	2.80	3.20 – 3.30	14.3 – 17.9
1 – 2 Metro 10	9.60	10.40 – 11.20	8.3 – 16.7
3 – 4 Metro 10	12.80	14.40 – 15.20	12.5 - 18.8
5 – 7 Metro 10	15.20	16.80 – 17.60	10.5 – 15.8
8 – 10 Metro 10	16.80	19.20 – 20.00	14.3 – 19.0
11 – 15 Metro 10	21.60	25.60 – 26.40	18.5 – 22.2
Day Rover	3.10	3.20	3.2
Rover 10 Day	24.00	25.00	4.2

Note: Metro 10 ticket prices are set at 80 per cent of the cost of 10 single trip tickets.

These fares may need to be further adjusted annually to reflect underlying changes in Metro’s costs. The submission of the Waratah-Wynyard Council suggests that fare increases should be phased in to avoid disadvantaging certain sections of the community. In the light of Metro’s patronage trends, the Commission reiterates its view that fare increases should be relatively small and regular, rather than introduced in relatively large single changes.

5.5 Adult Concession Fares

Travel on concession fares is offered by Metro and generally by interstate operators to —

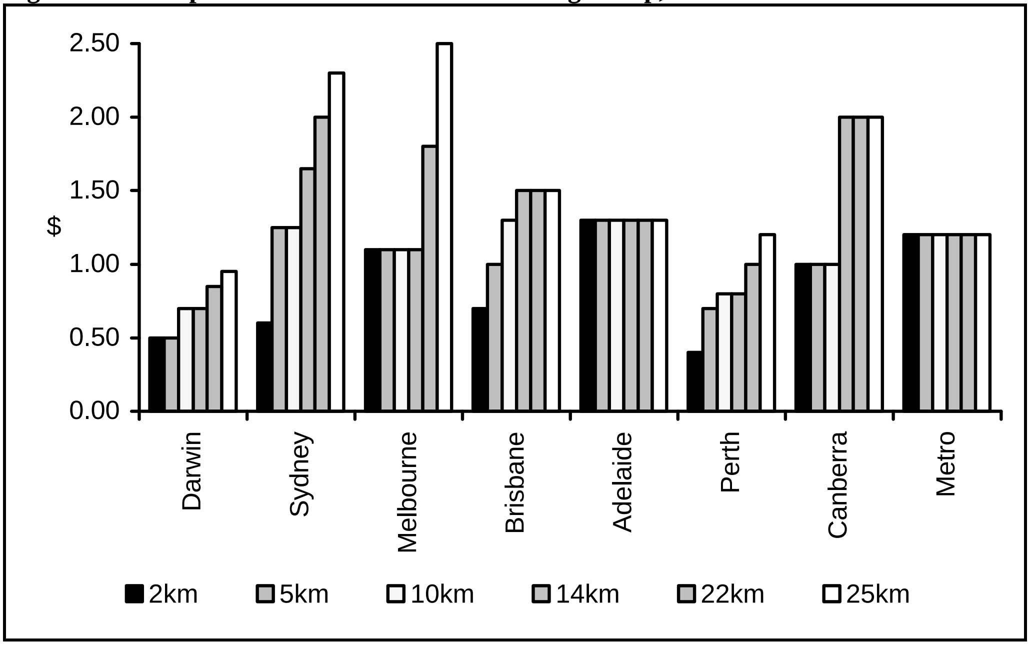
- pensioners and seniors;
- Health care card holders; and
- children and students.

Student concessions are discussed in Section 5.6.

The primary issue relevant to the appropriate level of concession fare is arguably the relative levels of Tasmanian and interstate concession fares.

A comparison of concession fares provided by interstate operators is shown in Figure 5.1 below.

Figure 5.1: Comparison of Concession Fares - Single Trip, October 1996



Note: Adelaide student concessions are fixed at $1.00. The concession fare shown here for Adelaide applies to pensioners and unemployed only.

This figure shows that it is the policy of states other than Tasmania and South Australia to provide concessions as a percentage reduction on the Adult Fare. No statistics are available from Metro on the travel patterns of concession travellers. If it is assumed that the travel patterns for concession travellers is consistent with that for adult travellers, 70 per cent travel 4 sections (about 5 km) or less, and 90 per cent travel 7 sections (about 10 km) or less. Comparative concession fares for these distances (1996) are shown in Table 5.8 below.

Table 5.8: Concession Fares by Distance

	Darwin $	Sydney $	Melb $	Bris $	Adel $	Perth $	Canb $	Metro $
2 kms	0.50	0.60	1.10	0.70	1.30	0.40	1.00	1.20
5 kms	0.50	1.25	1.10	1.00	1.30	0.70	1.00	1.20
10 kms	0.70	1.25	1.10	1.30	1.30	0.80	1.00	1.20
14 kms	0.70	1.65	1.10	1.50	1.30	0.80	2.00	1.20
22 kms	0.85	2.00	1.80	1.50	1.30	1.00	2.00	1.20
25 kms	0.95	2.30	2.50	1.50	1.30	1.20	2.00	1.20

Table 5.8 suggests that concession travellers on Metro services pay more for travel of up to 10 km than those in all cities other than Adelaide. It is not certain at this stage what the response of Governments and public transport operators will be to including the impact of the New Tax Package on concession fares. At this stage, the Commission is of the view that there should be no increase of concession fares from the current nominal level

of $1.20 as this would maintain relativity with the fares paid by concession travellers in most other jurisdictions.

The submission of Waratah-Wynyard Council notes that Community Transport Services Inc (Tasmania) currently sets its fare structure around the Metro fare for concession card holders. Changes in Metro fares would probably have an immediate impact on the fares charged in the community transport sector.

5.6 Student Concession Fares

The issue of concessions for student travel has presented an intractable problem for Tasmanian Governments for many years. The key issue is the lack of consistency between the fares paid by students on Metro services and those paid by students travelling with private bus operators, whether on school bus contract services or as concession travellers on route services. This section of the report describes the current position and considers the relativity of student fares and the underlying concessions across the three categories of student travel services. It then concludes with the Commission's view on an appropriate fare for student travellers on Metro services.

5.6.1 Student Fares — Metro and Private Operators

5.6.1.1 Contract Services

The Government, through the Department of Energy, Infrastructure and Resources, contracts directly with private bus operators for the provision of free student only services to schools. While such services are generally provided in areas where there is no publicly available route service to the school, in some cases contract bus services do provide transport to schools which are also served by public or private route services. Some of these contract services were initially established to provide transport to students living in outlying suburbs who attend centralised Matriculation Colleges. The existence of contract services (and free travel) has however resulted in their use by a range of other students to the extent that in some cases the original group targeted for assistance is now a minority user of the service.

5.6.1.2 Metro and Private Route Services

The Government provides subsidies through public (Metro) and private sector bus operators to students for travel on ordinary route services or special student-only services to enable travel at significantly below the commercial fare. The subsidy represents the difference between the reduced fare and the relevant commercial child or adult fare. The level of subsidy provided or, alternatively, the level of contribution required from a student varies depending on whether the student is travelling on a private service or a Metro service and where the service is operated.

The level of student contribution required is :

- for students travelling on a private route service which is in an area not serviced by Metro, a fare of 30 cents per trip;
- for students travelling on a private route service which is in an area serviced by Metro, a fare of $0.70 per trip; and
- for students travelling on Metro services, the Metro rate — $1.20 for a trip, or $0.96 per trip for travel on a '10 trip' ticket.

For students travelling from a rural area and transferring from a fare-paying private service (where the student fare is 30 cents) to a Metro service, operators are able to claim the difference from the Department of Infrastructure, Energy and Resources, ie the difference between the 30 cents and the Metro fare of 96 cents.

Students travelling from rural areas on a private fare-paying bus (fare of 30 cents) who transfer to a private fare-paying bus (where the student fare would normally be 70 cents in urban areas) are given a free pass to cover the transfer to the second leg of their journey.

The current level of student contribution for private route services has remained unchanged since 1991.

5.6.1.3 Other Free Travel

In addition to the provision of free travel on contract services, a Free Transport Pass, issued by the Department of Infrastructure Energy and Resources entitles certain classes of students to travel free on Metro and private route services. Free travel is available for:

- children of a family holding a Commonwealth Health Benefits Card, and
- the third and subsequent children from any family.

Some 55 to 60 per cent of students travelling with private operators and about 40 per cent of students travelling with Metro are entitled to free travel.

5.6.1.4 Government Contributions — Student Travel

Table 5.9 and Table 5.10 show the relevant contributions from the Consolidated Fund for student travel concessions. Prior to 1998-99, the Government contribution to Metro was identified as three components — for school travel, for other concessions, and as a general fare and general service top-up.

Table 5.9: Metro Funding

	1996-97 $'000	1997-98 $'000	1998-99 $'000
General top-up Funding	12 294	9 416	
School Travel	5 928	6 415	
Other Concessions	1 113	2 993	
Total	**19 335**	**18 824**	**18 300**

Table 5.10: Private Operator Funding – Actual Expenditure

	1996-97 $'000	1997-98 $'000	1998-99 $'000
School Bus Operators: Route Services	3 860	4 500	4 447
School Bus Operators: Contract Services	15 439	15 216	15 371
Pensioner, Aged and Unemployed Concessions (Private Operators)	860	775	759
Total	**20 159**	**20 491**	**20 577**

The Commission has not been able to establish the basis for the allocation of Metro funding to the three components. The Commission has estimated the additional revenue that would notionally be earned by Metro if students paid the adult fare, assuming:

- the travel pattern (number of sections) is the same for students as it is for full fare passengers; and
- there is no adjustment for the elasticity response to any change in adult fare. This latter assumption is not likely to have a substantial impact on the 60 per cent of students that pay fares, but would have a significant impact on the other 40 per cent that travel free.

On this basis, the top-up for student travel would total approximately $3.0 million for 1998-99, with an additional $170 000 top-up for travel for tertiary students.

The Department of Infrastructure, Energy and Resources has estimated the average number of students benefiting from travel concessions, as shown in Table 5.11. The estimates of Metro equivalent student numbers are Commission estimates based on Metro boardings data and averaged on the basis of 195 school days per year and two trips per day.

Table 5.11: Number of Students in Receipt of Different Components of Student Transport Assistance

Type of Assistance	Number of Students 1998-99
Contract Services	22 220
Route Services	6 167
Metro Services(1)	7 383
Conveyance Allowance	1 234

(1) 1998-99 Student equivalent estimate

Table 5.12: Cost per Student by Student Transport Assistance Component (1998-99)

Type of Assistance	Cost to Government $	Passenger Revenue(1) $	Total Community Cost $
Contract Services	687	0	687
Route Services	732	74	806
Metro Services	429	221	651
Conveyance Allowance	423	na	423

(1) Represents fares paid by students

It should be noted however that the estimate for Metro is based on the calculated ‘top-up’ allowance to the full adult fare. This takes no account of the general fare and services funding.

5.6.2 Interstate Comparison of Student Fares

The policy in other jurisdictions in regard to student concessions is similar to that of Metro, ie the student fare is the same as the general concession fare. The exception is South Australia, where students travelling on urban public transport pay a flat $1.00 fare. Hence the interstate comparison of student fares is essentially the same as that for concessions as indicated in Table 5.8: students in other capital cities pay less than students on Metro services for travel of up to 10 km. This probably includes more than 90 per cent of Metro student travel.

5.6.3 The Commission’s Views in Regard to Student Fares

There is a marked anomaly in fares charged to Metro student travellers and students travelling with private operators. This anomaly is apparent when the implications are considered. For example, a student may travel from Margate to Hobart (a distance of approximately 20 km) on a service provided by Hobart Coaches (a Metro subsidiary company) for a fare of $0.30, while a student may be required to pay $1.20 for travel of less than 2km on Metro services.

The submission of Russ Goodluck (on behalf of Malcolm Fenton) suggests that students refuse to use the Metro service in Ulverstone because of the ‘huge disparity’ in fares.

The Commission cannot see a case for increase of fares for Metro student travel while such anomalies exist. Since maintenance of the existing levels of fares would require Metro or the Government to absorb the impact of the GST and other underlying increases in costs, such a policy amounts to a reduction on the returns to Metro from student travel. On this basis, the Commission does not consider it appropriate that Metro student fares should be reduced to narrow the gap between the private and public sector student fares.